



Swartland Local Municipality Long Term Financial Plan

FINAL

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The service providers would like to acknowledge the municipal officials at Swartland Local Municipality who made time to be interviewed for this study and contributed to its findings.

Disclaimer

This document has been prepared by PDG on the basis of information and input provided by officials at Swartland Local Municipality. Much of the analysis is based on the use of a financial model. Models are not accurate predictors of what will happen in the future and do not provide an 'answer' in terms of creating certainty; instead models deepen understanding and inform decision making. Model results become less and less accurate the further into the future they project, as uncertainty about key assumptions increases. The model used for the analysis here is regarded as theoretically sound and PDG has tested the validity of the results wherever possible. Any decisions made based on the analysis presented here are the responsibility of Swartland Local Municipality.

Abbreviations and acronyms

CRC: Current Replacement Cost

EEDSM: Electricity Efficiency and Demand Side Management

EUL: Estimated Useful Life

FLISP: Finance Linked Individual Subsidy Programme

INEP: Integrated National Electrification Programme

LTFP: Long Term Financial Plan

MFMA: Municipal Financial Management Act

MIG: Municipal Infrastructure Grant

MSDF: Municipal Spatial Development Framework

MTREF: Medium Term Revenue and Expenditure Framework

NERSA: National Electricity Regulator of South Africa

NRE: Non-Revenue Electricity

NRW: Non-Revenue Water

RUL: Remaining Useful Life

SLM: Swartland Local Municipality

WCDM: West Coast District Municipality

WCWSS: Western Cape Water Supply System

Executive summary

Swartland Local Municipality (SLM) is currently in a strong financial position. The municipality has moved from generating an operating deficit in 2015/16 to generating operating surpluses of 9 to 10% in the most recent two financial years. Cash balances have improved steadily, and the municipality currently holds over R500 million in cash. However, stagnant national economic growth means that South African municipalities, including SLM, are functioning in an increasingly difficult environment. Rapid in-migration to the Western Cape Province means that growth in the municipality is largely in low income groups, creating a need for investment in non-revenue generating infrastructure that must be balanced with investment in revenue generating infrastructure if sustainability is to be ensured. Patterns of demand for key resources such as water and electricity have shifted substantially over recent years. This Long-Term Financial Plan (LTFP) was developed to ensure that SLM can continue to deliver the infrastructure and services required to meet social and economic needs in a financially responsible and sustainable manner, within this challenging context.

Methodological approach

The plan was developed through engagement with the Chief Financial Officer (CFO) as well as with Civil Engineering Services, Electrical Engineering Services and Development Services at Swartland.

Actual financial performance for 2015/16, 2016/17 and 2017/18 and preliminary financial results for 2018/19 were used as the basis for financial projections, which were done using an Excel-based LTFP tool. The tool estimates growth over 10 years; estimates capital investment need; projects the impact of capital investment on the operating account; projects the impact on cash; and then adjusts capital expenditure to reach an affordable capital programme. Critically, reductions in capital expenditure have consequences in the tool. Reducing capital expenditure on new infrastructure for the poor in a growth environment results in rising backlogs; reducing capital expenditure on new infrastructure that is not for the poor impacts negatively on financial performance, as it results in less revenue generated from non-poor customers; and reducing capital expenditure on the renewal of assets impacts negatively on asset condition, thus increasing the need for maintenance and for future asset renewal. Cuts to the capital programme must thus be made with care and with due consideration to the implications of these cuts. The tool thus highlights that current decisions have long-term implications.

Specification of the plan

The plan covers a period of 10 years, until 2028. Throughout the plan, 2018 (for example) refers to the municipal financial year 2018/19.

The plan considers a number of key issues facing SLM, namely:

- The impact of *growth patterns and rising poverty*, with most growth in SLM taking place in low income groups.
- The impact of relatively *rapid housing delivery* (particularly in low potential areas in the Municipal Spatial Development Framework (MSDF)) on the capital programme and also on collection rates.

- Uncertainty regarding *patterns of water demand* in future, with significant reductions in water demand due to the drought in recent years. There has been some ‘bounce back’ in 2018/19 but the extent to which demand will bounce back to pre-drought levels is still unknown.
- Uncertainty regarding *patterns of electricity demand* in future, with growth in electricity demand over the past 5 years very variable.
- Significant *backlogs in roads expenditures*.
- Pressure to increase the *rate of roll-out of additional or higher levels of community and social services*, with negative implications for the operating account.
- The need to manage *existing assets* adequately. Maintenance is largely adequate but does need to increase by about 10%. The Current Replacement Cost (CRC) of assets is estimated at around R4.9 billion, which means significant on-going asset renewal needs.
- Anticipated lower *growth in operating grants and transfers*, and zero real growth in *capital transfers*.

In order to keep pace with increases in the costs associated with providing services, the LTFP assumed *tariff increases* of 1.0% ahead of inflation on all rates and services for the full 10-year model run. For electricity, this is in addition to a pass-on of 74% of the bulk price increase.

The plan assumes an *inflation* rate of 5.4% per annum for the full 10-year model run.

Results of a base model run

The plan finds that the *operating surplus* will decline in 2019, and then remain relatively steady at a lower level between 2019 and 2023. Operating surpluses are projected to increase from 2023. The net operating surplus margin is expected to be 2.9% by 2023 and rise to 5.1% by 2028.

SLM is currently in a very strong financial position with over R500 million in *cash*. The plan suggests that SLM should maintain a strong cash balance but reduce cash coverage to between 6 and 8 months. The strong cash position provides security and lowers risk. Having a strong cash position allows SLM flexibility to respond to favourable conditions in financial and construction markets and acts as a useful crisis reserve. SLM currently generates strong interest income based on its cash balance. This is currently an important revenue source and SLM intends to maintain this going forward. In addition, having a strong cash position puts SLM in a strong negotiating position regarding borrowing terms. Finally, a strong cash position results in a lower dependence on grant finance promotes autonomy and own authority.

The *capital investment need* is estimated to be R1.7 billion over 10 years (in 2018 Rands). This implies capital expenditure of R171 million per annum on average in 2018 Rands, 9% higher than the average capital expenditure budgets for the next two years of R155 million¹. 52% of the capital investment need is for the renewal of existing infrastructure.

¹ Note that this estimate of need excludes any additional renewal backlog that is generated if current low levels of infrastructure maintenance continue. In other words, the estimate is based on the assumption of adequate

SLM cannot afford to invest in its full capital expenditure need over the full 10 years. The *affordable capital programme* indicated in the analysis is R1.2 billion over 10 years, suggesting average affordable expenditure of R120 million per annum on average. This is lower than the average capital budget of R155 million for 2019 and 2020, but higher than the average actual capital expenditure of R90 million per annum incurred between 2015 and 2018.

The analysis thus shows that SLM is in a capital finance constrained environment. This makes the *prioritisation of capital projects* very important. SLM must continue to invest in infrastructure for the poor in order to meet its social mandates but must also ensure that it invests adequately in revenue generating infrastructure in order to ensure financial sustainability and the ability to cross-subsidise the poor going forward. The analysis suggests that every Rand invested in infrastructure not for the poor over the next 10 years will generates an R1.80 in additional revenue over the same period on average. SLM must also carefully prioritise renewal projects based on an assessment of the criticality and condition of assets. This is necessary to limit decline in the average condition of assets and loss of functionality. Finally, the physical location of projects should be considered and projects in high potential areas, ideally those identified in the MSDF, should be prioritised.

With regard to *capital financing*, SLM will make significant use of internal reserves to finance capital expenditure over the next five years, but once the cash coverage ratio reaches 6 months, anticipated to be in 2022, this finance source will become more constrained. Analysis in the plan shows that borrowing will allow SLM to accelerate the capital programme somewhat while maintaining cash coverage levels. In the latter five months of the plan, borrowing is a significant portion of the capital finance mix. In the anticipated challenging socio-economic environment, the plan suggests that all own source finance (internal reserves and borrowing) will be constrained and SLM will become more dependent on capital grants over the 10 years. This makes prudent management of remaining own finance sources even more important in order to allow for investment in revenue generating infrastructure.

Impact of selected issues on financial projections.

The LTFP then presents analysis that shows how a number of changes in assumptions will impact on the results. These include:

- More rapid housing delivery
- No decline in the collection rate
- A return of water demand to pre-drought levels
- Increased roll-out of community and social services
- Lower Equitable Share growth
- Reduced investment in revenue generating infrastructure

maintenance. Average budgets exclude housing subsidies, as housing top structure delivery are not considered municipal infrastructure.

Aside from no decline in the collection rate, all of the scenarios worsen the financial performance of SLM, with lower growth in Equitable Share having the most significant impact.

If SLM can ensure that the collection rate does not decline, even as housing and the associated high levels of infrastructure services are rolled out to poor households in low growth areas and areas where Eskom provides electricity, it can improve its financial performance and ability to invest in infrastructure over the next 10 years.

Recommendations

The plan recommends that:

- SLM continue to identify opportunities for *efficiency gain and cost containment* as these arise.
- Current low levels of *Non-Revenue Water and Non-Revenue Electricity* be maintained.
- *Rates and tariffs increase* at a rate that at least keeps up with increases in input costs. Increases in rates and tariffs of at least 1.0% ahead of inflation each year are proposed.
- SLM maintains strong *cash* balances with a targeted range for cash coverage of 6 to 8 months.
- SLM should continue to strive to maintain a *collection rate* of at least 95%, as recommended by National Treasury.
- *Maintenance* levels on water and electricity infrastructure be increased with overall expenditure on maintenance increasing by 10%. SLM should progress towards using the cost allocation functionality in mSCOA to ensure that maintenance expenditure is accurately quantified, particularly through recording the costs of labour associated with maintenance.
- Capital expenditure on *renewal* should be increased and SLM should continue to implement and improve on its Infrastructure Asset Management systems.
- SLM should put robust *capital planning and capital prioritisation* systems in place. This should balance the need for infrastructure to support social development and economic growth, as well as ensure that adequate allowance is made for renewal. It should also consider the physical location of projects and prioritise projects in high potential areas, ideally those identified in the MSDF.
- SLM should clarify policy regarding *development charges* and calculate the level at which these should be levied in line with the National Treasury guideline.
- SLM should use prudent *borrowing* to accelerate its capital programme. SLM should borrow to finance new revenue generating infrastructure. It can consider issuing an unlisted bond as an alternative to raising loans.

Implementation and review of the plan

MTREF budgets cover a three-year period but it is important that they keep a long-term view in mind. Current decisions regarding operating or capital expenditure have long-term implications and these must be carefully considered. It is recommended that Council consider the content of the LTFP when preparing the MTREF budgets for 2020/21 and

subsequent years with the expectation that adopted budgets will closely align with the underlying principles and assumptions of the LTFP.

The LTFP should be reviewed annually to account for updated performance information and changing circumstances.

An assessment should be undertaken in 2023, in other words after 5 years, to assess where SLM is against the plan. A substantial update to the plan will be necessary at this point.

SLM is confident that this LTFP will allow the municipality to set priorities within its available resources and to continue to deliver the infrastructure and services required to meet social and economic needs in a financially responsible and sustainable manner, even with an anticipated challenging socio-economic environment.

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1 Introduction and background

Swartland Local Municipality (SLM) is currently in a strong financial position. The municipality has moved from generating an operating deficit in 2015/16 to generating operating surpluses of 9 to 10% in the most recent two financial years. Cash balances have improved steadily, and the municipality currently holds over R500 million in cash. However, stagnant national economic growth means that South African municipalities, including SLM, are functioning in an increasingly difficult environment. Rapid in-migration to the Western Cape Province means that growth in the municipality is largely in low income groups, creating a need for investment in non-revenue generating infrastructure that must be balanced with investment in revenue generating infrastructure if sustainability is to be ensured. Capital grants cannot be used for revenue generating infrastructure and so the municipality must secure its own funds for this investment. This requires that it continue to generate strong operating surpluses and maintain cash balances. In a context of slow economic growth, potential declines in grants and transfers, and changing patterns of water and electricity demand from paying customers, prudent financial management will remain vital to ensure that SLM continues to perform strongly in future.

It is against this background that this long-term financial plan (LTFP) has been prepared. It aims to support the achievement of the long-term vision of SLM, set out in the Municipal Spatial Development Framework (MSDF), which is for the municipality to be *“an economically prosperous and sustainable liveable environment for all Swartland residents”* to be achieved through a *“balance [of] development and conservation through the strengthening and expansion of existing assets in the region”*.

The remainder of the plan is structured as follows. Section 2 introduces the methodological approach and describes the model used to perform the analysis for the financial plan. Section 3 describes the assumptions made in running the model and introduces some of the key issues facing SLM that have been considered in the financial plan. Section 4 then presents the results of a base run of the financial model, while Section 5 summarises the potential impact of some of the identified key issues on these results. Section 6 proposes a way forward for key financial parameters in SLM over the long-term.

2 Methodological approach

The LTFP has been prepared through a series of engagements with officials at SLM, primarily the Chief Financial Officer but also with officials from various service departments, chiefly Development Services, Civil Engineering Services and Electrical Engineering Services.

The starting point of the analysis presented is an assessment of historic financial performance in SLM, based on audited financial statements for 2015/16, 2016/17 and 2017/18, and preliminary financial statements for 2018/19. The analysis is thus strongly grounded in actual financial performance in SLM.

This historic financial performance is used as the basis for financial projections made using a model. It is important to bear in mind that a municipality is a complex entity and a model will thus never be an accurate predictor of future performance. Modelling is used in the development of the LTFP to highlight the key strategic issues facing the municipality and to support decision making regarding these issues.

A brief summary of the steps undertaken in the model is provided below:

1. *Estimate growth*: population, household and economic growth were considered as well as service provision plans. Sales volumes were projected along with system input volumes for water and electricity; volumes of wastewater treated; and mass of solid waste collected, transferred, treated and disposed.
2. *Estimate capital investment need*: capital investment need to allow for growth was estimated based on customer growth as well as growth in system input volumes and volumes treated, collected, transferred or disposed. Capital investment need for renewal was estimated based on the Current Replacement Cost, Estimated Useful Lives and condition of existing assets. The analysis followed a 'top down' approach to estimating investment need, making use of unit costs (for example, capital cost per connection or per ML per day additional capacity) obtained from Aurecon Consulting Engineers. Estimates were checked for validity with officials at SLM.
3. *Project impact on the operating account*: the impact of capital investment on the operating account was estimated. Operations and maintenance expenditure was projected based on cost drivers (many of which are related to infrastructure); debt impairment based on a projection of the debtors book; depreciation based on planned capital investment; and bulk purchases based on projected input volumes. On the revenue side, transfers were projected based on the Division of Revenue Act and assumed growth; service charges based on projected sales volumes and assumed average tariffs; and property rates based on the value of the property base and the c in the R rate applied.
4. *Project impact on cash*: a projection of cash flow was made based on assumed collection rates and the adjustment for non-cash items. The level of 'free cash flow' (which is cash not tied to capital grants, required to finance working capital, or required to redeem existing or new debt) was determined. This cash is available either to finance capital expenditure directly or to finance new debt.
5. *Adjust capital expenditure to reach affordable capital programme*: capital expenditure was reduced in order to reach an affordable capital programme while retaining sound financial and cash performance. It is important to emphasise that reductions in capital expenditure have consequences. Reducing capital expenditure on new infrastructure for the poor in a growth environment results in rising backlogs; reducing capital expenditure on new infrastructure that is not for the poor impacts negatively on financial performance, as it results in less revenue generated from non-poor customers; and reducing capital expenditure on the renewal of assets impacts negatively on asset condition, thus increasing the need for maintenance and for future asset renewal. Cuts to the capital programme must be made with care and with due consideration to the implications of these cuts. These implications are discussed where relevant in the plan that follows.

The model has used 2018 as the base year. The model runs for 10 years, until 2028. Throughout this report, **2018 (for example) refers to the municipal financial year 2018/19.**

The most recent Municipal Financial Management Act (MFMA) Budget Circular indicated that municipalities should anticipate inflation to be **5.4%** in their budgeting processes. This rate has been used for the full 10-year model run.

3 Specification of the financial plan

This section of the plan outlines the assumptions made in developing the LTFP and introduces some of the key issues facing SLM that will influence financial viability going forward. The impact of these issues is tested in the analysis and presented in Section 5 of the report.

3.1 Growth patterns and rising poverty

Population and household growth rates

SLM is growing rapidly. Population growth between the Statistics South Africa Census 2011 and Community Survey 2016 was 3.3%. This is more than double the South African national population growth rate and almost double that of the average in the Western Cape.

That said, **population growth rates have slowed**, with the growth between Census 2001 and 2011 being 4.7%. It is anticipated that this decline in growth rates will continue.

The household growth rate between Census 2011 and Community Survey 2016 was 5.9%, higher than the population growth rate. This is due to **declining household sizes**. The average household in SLM in 2011 comprised 3.9 people. By 2016, this had declined to 3.4 people. It is anticipated that this decline will not continue indefinitely, which means that household growth rates will also decline in future.

Income distribution and poverty

According to the data used by National Treasury to allocate the Equitable Share grant to municipalities, there are 40 699 poor households in the municipality, with **45% of all households defined as 'poor'**. This is using National Treasury's definition of poor, which is households earning less than R3 530 per month. As specified in its Indigent Policy, SLM uses a threshold of R4 515 to define 'poor', higher than the threshold used by National Treasury. There are currently about **8 900 customers registered as indigent** in the municipality, significantly lower than the number of households defined as poor by National Treasury, despite the higher income threshold applied in SLM. There are several possible reasons for the difference between the number of poor households and number of registered indigents. Firstly, the municipality currently provides services only in the urban areas of the municipality. According to Statistics South Africa, about 15% of the municipal population is in rural areas². This is approximately 6 200 households, many of which would be classified as poor. Secondly, a municipal customer typically comprises several households due to backyarding and shared connections. It is estimated that in SLM there are around 1.7 households per customer. Finally, it is likely that, as in most South African municipalities, there is under-registration of indigents. In other words, there are some poor households who have not registered and who may do so in future.

² Statistics South Africa defines rural as anywhere not urban. Urban areas are defined as a continuously built-up area with characteristics such as type of economic activity and land use. An urban area is one which was proclaimed as such or classified as such during census demarcation based on observation of aerial photographs or other information.

Economic growth

SLM has managed to realise **positive, although low, economic growth every year since the international financial crises in 2009**, despite challenging macro conditions. The segmentation of its economy has however changed significantly with manufacturing declining from 35% of GVA to 20% over the last 20 years. Similarly, agricultural services have declined from 15% to 9% over the same period while business services have increased from contributing 12% to 21% of total GVA in the municipality. This changing economic profile has implications on low-skilled labour absorption rates, employment and income profile.

Projections by IHS Markit (IHS Markit, 2018) predict the continuation of past trends in terms of relative decline in manufacturing and growth in business services, but agriculture is projected to maintain its relative share of the local economy in the medium term.

IHS Markit project an average annual GVA growth of 2% for SLM, but a conservative assumption of **GVA growth of 1.3% per annum** throughout the 10-year model run has been used in the analysis.

Implications for income distribution

Statistics South Africa does not report data in a manner that allows population and household growth rates to be easily disaggregated by income group. However, data on the growth in number of indigent households as well as growth in revenue streams such as property rates indicates that **most of the population and household growth is in poor groups**. This is supported by the relative rates of economic and population growth: with economic growth below population growth, average incomes per capita are almost certain to be declining.

The population and household growth rates assumed in the base model are presented in the table below. These show the anticipated decline in overall growth rates, with higher growth rates assumed in poor than in non-poor populations.

Table 1: Population and household growth rates assumed in the base model run

	Poor	Non-poor	Total
Population growth 2018	4.5%	1.0%	2.6%
Population growth 2028	2.8%	0.5%	1.8%
Household growth 2018	5.8%	1.0%	3.2%
Household growth 2028	3.2%	0.5%	2.0%

Higher growth in poor populations means a **worsening income distribution** over time, as can be seen in the results of the projections provided below.

Table 2: Projected population and households by 2028 in the base model run

	Total 2018	Total 2028	Additional poor by 2028	Additional non-poor by 2028
Population	139 092	175 900	30 468	6 340
Households	40 699	54 091	11 667	1 762

The projections suggest that the **percentage of households in the municipality that are poor will increase from 45% in 2018 to 56% by 2028.**

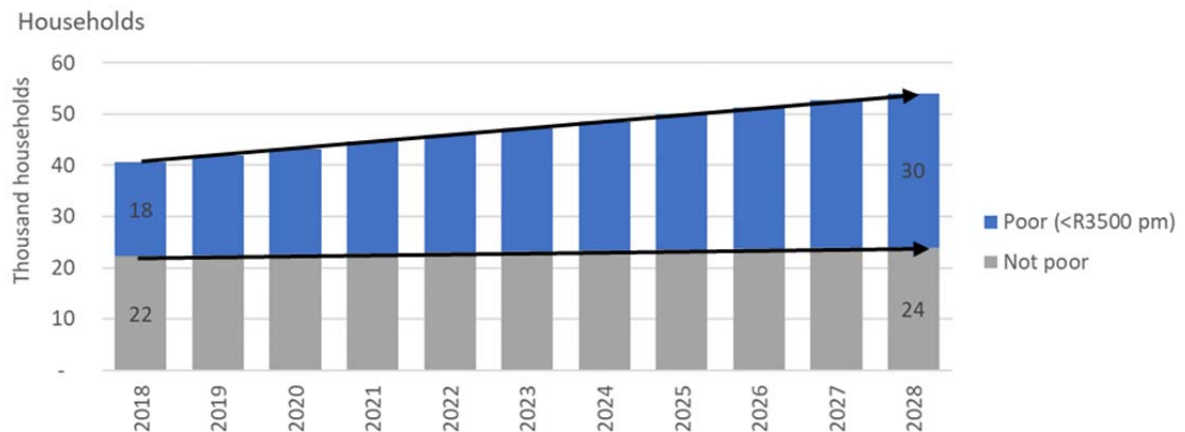


Figure 1: Projected number of households per annum in base model run

This has significant implications for municipal financial viability. Poor households pay bills for services that are lower than the cost of providing those services. The deficit is partly filled by the Equitable Share subsidy received from national government, but SLM (like all South African municipalities) also relies on cross-subsidisation from wealthy households to pay for services to the poor. With a declining income distribution, there are fewer wealthy households to cross-subsidise ever higher numbers of poor households. National government is also sending strong signals that subsidies and transfers will see limited or no growth over the short to medium term. This means that there may be less Equitable Share available to subsidise the provision of services to poor households, increasing the financial pressure on SLM.

3.2 Housing delivery and its implications

The subsidised housing pipeline for SLM anticipates delivery of about 1 000 housing opportunities per annum but the rate of delivery of housing opportunities that will in fact be possible is highly dependent on the amount of subsidy allocated from province. Province makes these allocations from year to year and municipalities have little certainty about how much housing subsidy they will be allocated in future years. Subsidy allocations have been approximately R40 million per annum historically, although SLM applied for an allocation of R69 million for 2019/20.

Historic rates of housing delivery have been in the region of 200 housing opportunities per annum. The housing waiting list is currently 14 722 households, and SLM has estimated that at current delivery rates and with anticipated growth, it would take 74 years to meet this need.

The analysis for this financial plan has assumed **delivery of 350 housing opportunities per annum over the 10-year model run.** This is somewhat more than the average historic delivery rate but significantly less than the 1 000 opportunities targeted in the pipeline. This rate of delivery is considered realistic given likely housing subsidy allocations. It is

disaggregated into 332 fully subsidised housing opportunities³ and 18 houses delivered through the Finance Linked Individual Subsidy Programme (FLISP), which is targeted at gap housing⁴.

Delivery of 350 housing opportunities per annum **will not keep pace with the anticipated growth in poor households**. At this rate of delivery, the percentage of households in 'inadequate' housing is anticipated to increase from about 7% in 2018 to 22% by 2028, with an additional 9 000 households 'inadequately' housed by 2028. Note that 'adequate housing' here does not necessarily refer to having a top structure. It refers to having access to at least a formalised, serviced site delivered through the housing programme.

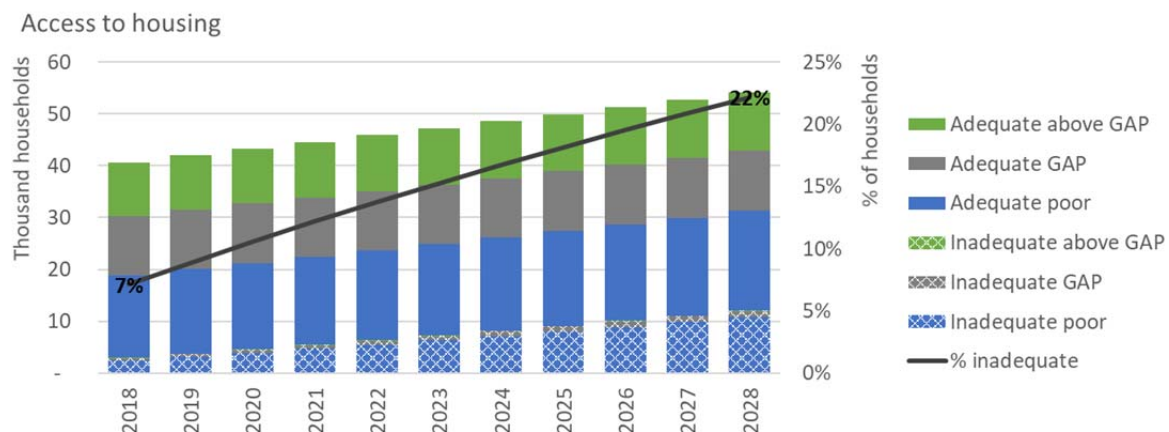


Figure 2: Projected access to housing per annum in base model run

The rate and location of housing delivery has several implications for planning and financial sustainability in SLM that are discussed below.

Lack of alignment between housing delivery and the SLM MSDF

There is a lack of alignment of housing delivery with the spatial vision of SLM at present. Of the 11 towns in the municipal boundary, the MSDF identifies three as high potential growth nodes which are to be the focal points of economic and demographic growth. These are the towns of Malmesbury, Moorreesburg and Darling. In support of a nodal strategy, the MSDF stated that the provision of future subsidised housing developments would only be provided in the high growth potential nodes to support sustainable communities. However subsequent protest action has resulted in the decision to locate several subsidised housing developments in the lower potential settlements where many poorer households are currently located.

This lack of alignment between the location of housing opportunities delivered and the MSDF **creates potential problems for long-term infrastructure investment**. Expansions in the capacity of bulk infrastructure are planned based on the MSDF. If actual housing delivery

³ Note that a 'housing opportunity' may refer to a services site and not necessarily a full top structure. The mix of serviced sites and full RDP-style houses provided will depend on the level of subsidy allocated to SLM by province.

⁴ The 'gap' housing market refers to households earning between R3 501 and R22 000 per month. These households do not qualify for a fully subsidized house but often do not qualify for home loans. The FLISP subsidy allows qualifying beneficiaries to reduce the initial mortgage loan amount or augment the shortfall between the qualifying loan and the total house price to bring the home loan instalment to an affordable amount over the loan repayment period.

is located elsewhere, then a situation arises where there is insufficient bulk infrastructure capacity to supply the new housing developments; while spare capacity exists in the growth areas anticipated in the MSDF.

A high rate of subsidised housing delivery, particularly in lower potential settlements, also has **implications for the cash collection rate** in SLM. High levels of service (full in-house water, waterborne sanitation, prepaid electricity connection, kerbside waste collection and tarred roads) are delivered along with subsidised housing opportunities. Subsidised housing opportunities are by nature delivered to poor households who are not able to pay the full cost of these services. Although they receive subsidies through the Equitable Share and through subsidised low rates on the initial blocks of inclining block tariffs, collection rates in these communities often remain a challenge. As with many South African municipalities, collection rates in the areas of SLM where Eskom is the electricity provider are lower than in those where the municipality provides. This is because SLM cannot make use of electricity disconnections as a credit control mechanism in the Eskom-supplied areas⁵. New housing developments in lower potential settlements, particularly those in Eskom-supplied areas, will place further downward pressure on the collection rate.

SLM has historically achieved strong collection rates in excess of 95%. However, collection rates on water in particular have declined in recent years. The collection rate on water is currently 85%, while it is 95% on other rates and services. This results in a total collection rate on rates and services of 94% currently. With the rapid roll-out of housing assumed in the analysis, it is assumed that the **collection rates on rates and services will decline by 2% over the 10-year model run.**

Note that the **collection rate on other revenue, primarily traffic fines, is only 18% at present.** Expenditure is incurred to issue fines but most of the revenue is simply not collectible. This has significant implications on the overall collection rate, which is 86% when the low collection rate on other revenue is factored in. This in turn has implications on the operating account as a greater allowance must be made for debt impairment. No improvement in the collection rate on other revenue is anticipated.

Financing the infrastructure provided with housing

There are also issues related to financing the capital cost of the infrastructure provided with housing. A portion of the housing subsidy (approximately R46 000 in 2018/19) can be used to cover the costs of internal infrastructure provided with a subsidised house and SLM tries to keep the actual costs to within this limit. However, the **subsidy does not cover the cost of bulk infrastructure or link roads**, connecting new subsidised housing developments to existing towns, for example. The Municipal Infrastructure Grant (MIG) can be used for this infrastructure but is often insufficient. Any gap must be covered out of SLM's own sources.

Given the significant impacts of rapid housing delivery, a scenario of higher housing delivery is tested in the analysis and presented in Section 5 later in this report.

⁵ SALGA and National Treasury are aware of this issue. Cabinet has recently passed a resolution clarifying that municipalities are the Electricity Service Authority in their areas. This is a step towards allowing municipalities to require Eskom to disconnect electricity. However, some legal barriers remain to this becoming a reality and municipalities are unlikely to see changes for several years still.

3.3 Projected demand for services

Demand for services is a key driver of financial performance. There have been significant fluctuations in the patterns of demand for water and electricity in particular in recent years. This makes planning for bulk infrastructure demand difficult and also creates uncertainty with regard to projection of future sales volumes. Anticipated demand for services is discussed below.

Water

SLM currently has 20 984 domestic water customers and 1 421 non-domestic customers. Assuming that the ratio of households per customer remains fixed, the projections indicate that there will be almost **2 361 additional domestic customers and 200 non-domestic customers by 2028.**

Regarding water, the **recent drought resulted in significant reductions in water demand** in SLM, in response in part to stringent water demand management measures. Total water demand by the municipality peaked at 5 680 MI in 2014 and had declined to 3 325 MI in 2017.

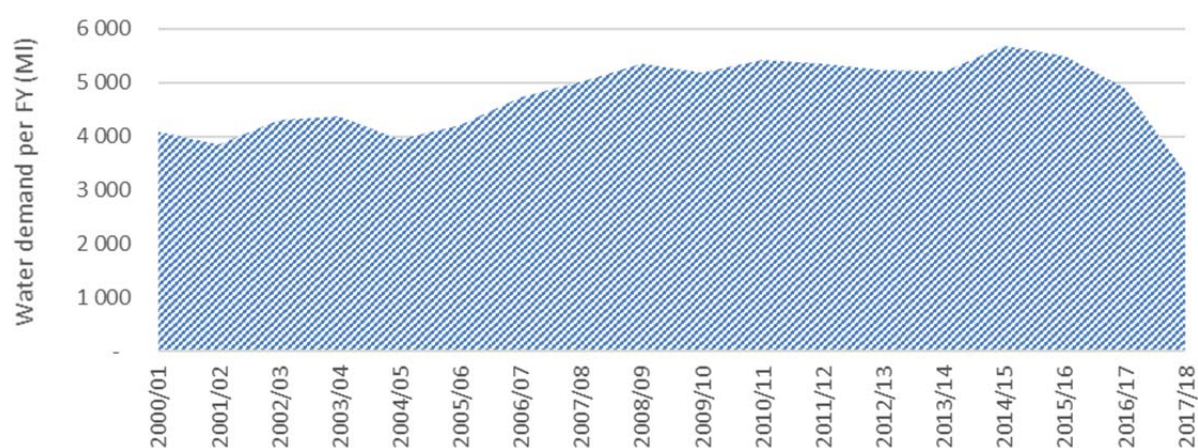


Figure 3: Total water demand 2000 to 2017

There has been a substantial pick up in water demand in 2018, with sales per domestic customer rising from 8.22 kl per month on average in 2017 to 11.98 kl in 2018. This is still below the 2014 average sales of 16.7kl. The **extent to which water demand will 'bounce back' all the way to pre-drought levels is uncertain.** This makes planning bulk infrastructure difficult. Bulk infrastructure capacity in the system that supplies SLM is currently constrained and expansions to the system are required. The extent of these expansions that are necessary over the next 10 years depend on the anticipated bounce back in water demand. The level of bounce back also has implications for cross-subsidisation as wealthier households and non-domestic customers have in many cases been the ones who have reduced demand most significantly. This reduces the potential for cross-subsidisation of poorer customers. The analysis has assumed that water consumption by domestic customers will continue to rise after the drought but will not 'bounce back' all the way to pre-drought levels. A **bounce back to 80% of pre-drought levels over 2 years has been assumed.** An alternative scenario with 100% bounce back is tested and presented in Section 5 of the report.

Non-Revenue Water (NRW) in SLM is currently approximately 16.5%, which is in the lower range of NRW in South African municipalities. It is assumed in the analysis that NRW will remain at this low level. Note that maintaining NRW at this low level will require ongoing investment in pipe replacement and pressure management, as well as continued effective meter reading, billing and credit control.

Finally, it has been assumed that the elasticity of demand for water is -0.20.

Based on these assumptions, the projections find that there will be an **increase of 1.6% per annum on average in both System Input Volume and in the volume of water sold**⁶. System Input Volume reaches 5 640 Ml pa by 2028 and sales volumes will reach 4 700 Ml pa.

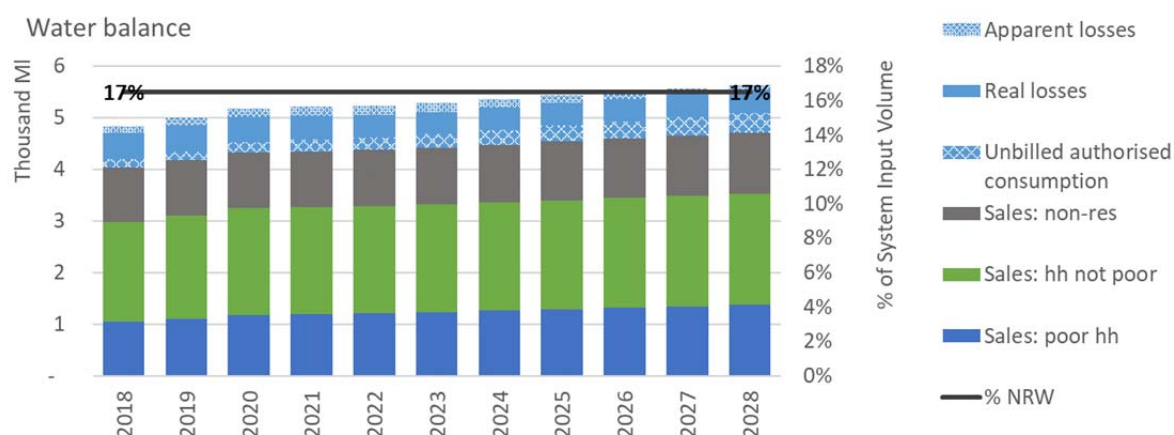


Figure 4: Projected water balance in the base model run

The rising ‘unbilled authorised consumption’ in the figure above is due to the increase in number of households who do not have access to formalised services through the housing programme. This is effectively households who are accessing water through communal standpipes.

A final significant issue related to water is the **availability of raw water resources in future**. Provision of raw water is a national function. SLM receives water almost exclusively from the Western Cape Water Supply System (WCWSS). The supply of bulk water is currently through the West Coast District Municipality (WCDM). WCDM receives an allocation of 13 million cubic metres of water from the WCWSS at present but climate change, poor system management and over-supply out of the WCWSS is anticipated to reduce the yield of this system over time. It is thus very likely that new water sources will have to be developed by national Department of Water and Sanitation or by WCDM in future. Alternatively, SLM could start purchasing bulk water from the City of Cape Town in addition to the purchases from WCDM. Both options will **increase the cost of bulk water by an anticipated R2.00 per kl**. This has been accommodated in the analysis with the assumption that it will become necessary from 2024.

⁶ With NRW remaining constant, System Input Volume will increase at the same rate as volume sold. Note that 1.6% per annum growth is lower than the assumptions made by Civil Engineering Services in their long-term planning. Expansion in bulk infrastructure capacity in the Master Plans is based on a 2.5% per annum growth rate, which would accommodate the anticipated 1 000 housing opportunities per annum planned in the housing pipeline.

Wastewater

SLM currently has 19 265 domestic sanitation customers and 1 619 non-domestic customers. Assuming that the ratio of households per customer remains fixed, the projections indicate that there will be about **1 750 additional domestic customers and 200 non-domestic customers by 2028**.

2 439 MI pa (6.7 MI pd) wastewater was returned to the system in 2018, about 57% of the System Input Volume. The projections indicate that the volume returned will reach just below 2 900 MI pa (7.9 MI pd) by 2028. This represents an **average growth of 1.7% per annum over the 10 years** in the volume of wastewater treated.

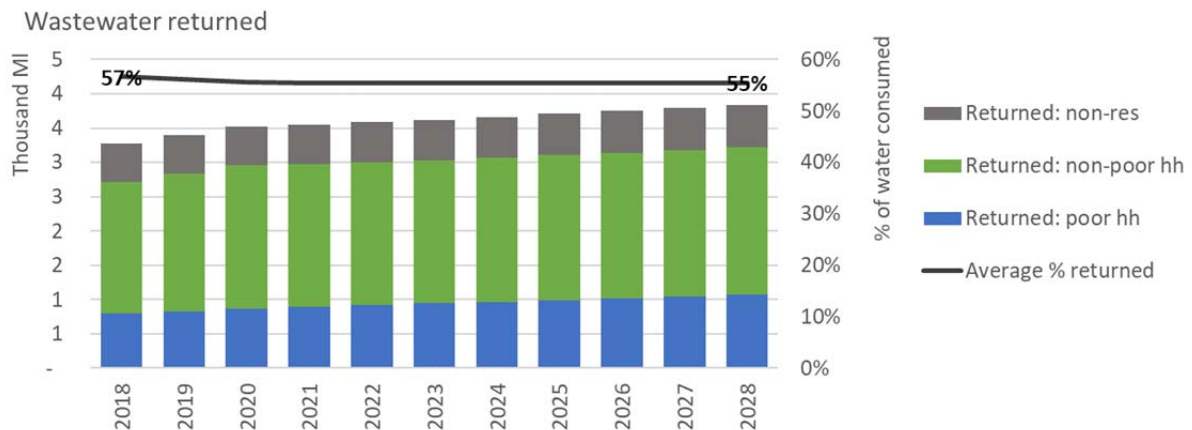


Figure 5: Projected volume of wastewater returned in the base model run

Electricity

It is estimated that the municipality provides electricity to approximately 65% of the households in Swartland, with Eskom providing the remainder. SLM currently has 15 688 domestic customers, 5 301 of which are prepaid indigent customers. There are 1 951 non-domestic customers. Assuming that the ratio of households per customer remains fixed, the projections indicate that there will be about **5 162 additional domestic customers and 270 non-domestic customers by 2028**.

As for water, there have been **shifts in patterns of electricity demand** in recent years in SLM. SLM saw several years of stagnant growth in electricity demand, although recent years have seen returning demand with growth of 2.5% in 2018/19. This has not been consistent across the municipality. Moorreesburg, for example, has seen almost no growth in electricity demand for several years. Electrical Engineering Services continue to plan for about 0.5% growth per annum on average. The relatively stagnant growth in electricity demand is understood to be due to significant increases in efficiencies by consumers on the back of very high electricity price increases over the past decade.

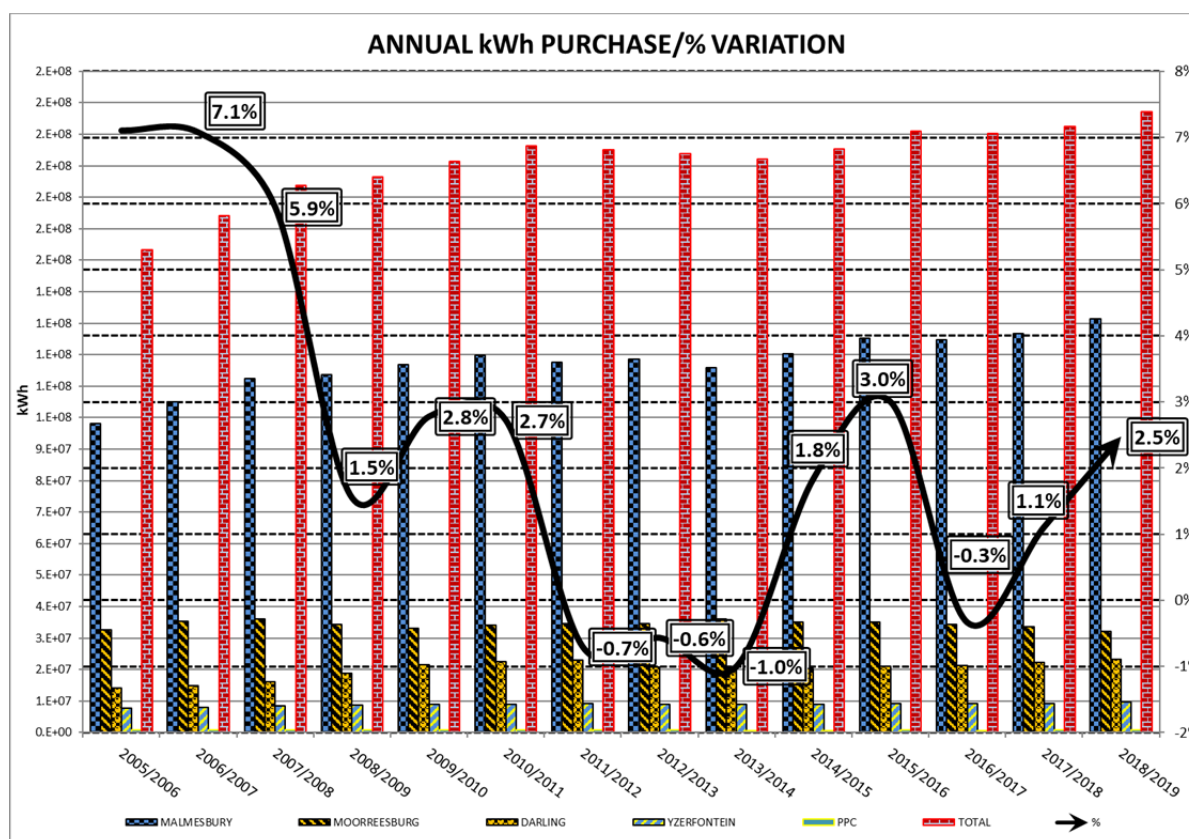


Figure 6: kWh electricity purchased from Eskom 2005 to 2018

Non-Revenue Electricity (NRE) has been assumed in the analysis to remain at the current level of approximately 5.5%, which is well within the benchmark range proposed by the National Electricity Regulator of South Africa (NERSA). As for water, it must be noted that maintaining NRE at this low level will require on-going investment in the renewal of assets and continued effective meter reading, billing and credit control.

Increases in the **bulk electricity price** levied by Eskom on municipalities over past years have been a strong driver of rises in operating expenditure. The extent to which prices will continue to rise is highly uncertain. The modelling has assumed a **15.63% nominal increase in 2019/20, 10% nominal increase in 2020/21 and 2021/22 respectively, and an 8% nominal increase per annum thereafter**. It was assumed that **74% of Eskom bulk price increases will be passed on to the customer through increases in the electricity tariff**, in line with typical NERSA tariff approvals.

Elasticity of demand for electricity of -0.40 is assumed.

Based on these assumptions, the projections find that there will be an increase of **0.5% per annum on average in both the volume of electricity purchased and in the volume sold**⁷. This is well aligned with the assumptions made by Electrical Engineering Services in their long-term planning. Bulk purchase volume reaches 207 000 MWh pa by 2028 and sales volumes will reach 195 000 MWh pa.

⁷ With NRE remaining constant, volume purchased will increase at the same rate as volume sold.

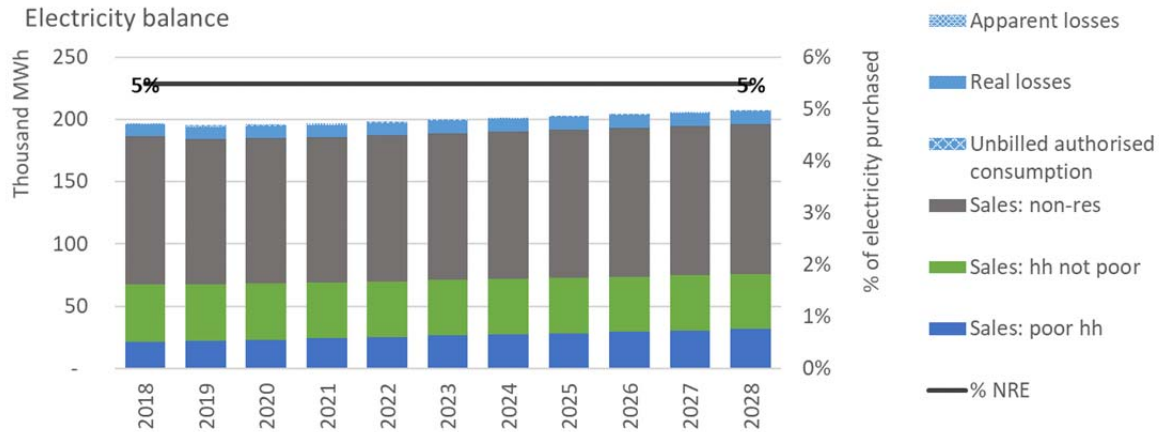


Figure 7: Projected electricity balance in the base model run

Solid waste

SLM is responsible for the provision of solid waste services in the entire municipal jurisdiction, however, the municipality is unable to provide collection services in rural areas. Instead a system of vouchers and self-delivery to transfer stations are used by rural customers.

There are currently 23 189 solid waste collection customers in SLM. 20 526 of these receive a weekly black bag collection service, 2 519 receive a 240L or 2x85L drum service, and the remaining 144 receive a mass container removal service. The model projects that there will be an **additional 3 000 customers by 2028**, 1.2% per annum average growth in the number of customers.

The municipality currently receives about 33 000 tonnes of waste per annum at landfills. This is projected to increase to 43 000 tonnes by 2028, an **increase of 2.4% per annum on average**. Approximately 50% of this waste passes through transfer stations.

Roads

SLM is responsible for almost 400km of road, of which 320km is permanently surfaced and 70km is gravel. SLM is currently **upgrading gravel roads to surfaced at a rate of about 1.5km per annum**. It is assumed that upgrading will continue at this rate.

At the rate of housing delivery assumed in the base model (350 units per annum), SLM will need to provide about **5km of new access roads per annum**, 48km over the 10-year model run.

According to Civil Engineering Services, there is currently a **significant backlog in roads resealing and rehabilitation**. They estimate that 94km of roads require resealing and 99km require rehabilitation.

Community and social services

It is very difficult to estimate the future 'demand' for community and social services as the definitions of norms and standards related to these services are not easy to apply. It is assumed that the full population of SLM currently has some access to community and social services in the base model run, and that **further provision is to allow for growth in the municipality, not to expand the access of the existing population**. Total population growth

by 2028 is anticipated to be 26%, implying that community and social services must be expanded by this amount.

Current budgets under-allow for operating expenditure on community and social services assets. Budgeting processes for these assets have not adequately considered the operating and maintenance implications of the new infrastructure. It is estimated in the base model that staff numbers for these services, for example, need to be about 9% higher than current which results in a **1.5% increase in the total employee related cost in year 1** of the model run.

SLM's strong cash position has led to **demands for more rapid roll-out of additional or higher levels of community and social services**. While these services are important for socio-economic reasons, they have a negative impact on the financial viability of the municipality. This is because the revenue that they generate is only a fraction of the cost to provide them. Increased roll-out of these services will place even more pressure on the finances of SLM. A scenario testing the impact of more rapid roll-out of community and social services has been run in the analysis and is presented in Section 5 of the report.

3.4 Managing existing assets

There is not good data on the Current Replacement Cost (CRC) of the existing infrastructure in SLM but it has been estimated to be approximately **R4.9 billion**. Based on data from the asset register, it is **estimated that about 60% of the useful life of the assets remains**. Current Replacement Costs and condition for assets in each function are provided in the table below.

Table 3: Estimated Current Replacement Cost and condition of assets in SLM

	Current Replacement Cost (2018 Rmillion)	Condition (RUL/EUL)
Governance and administration	245	85%
Community and public safety	363	80%
Roads and stormwater	1 943	61%
Electricity	789	65%
Water	757	51%
Wastewater management	721	47%
Waste management	81	53%
Other	47	84%
Total	4 945	60%

This existing infrastructure must be maintained and renewed to keep it in adequate condition.

When an asset is purchased it has an Expected Useful Life (EUL). Over time, **this life is depleted if the asset is not renewed**⁸ and so the Remaining Useful Life (RUL) becomes shorter and shorter. While a proxy only, the Remaining Useful Life divided by the Expected Useful Life (RUL/EUL) can be used as an indicator of the condition of the assets. Once the RUL/EUL gets too low, the asset begins to fail and must be replaced.

Renewal must be undertaken on a regular basis to constantly rehabilitate or replace components of the asset base and keep it in sound condition. This requires a sound and adequately funded Infrastructure Asset Management programme with assets renewed before their condition deteriorates so far that performance declines. In reality, all municipalities (and indeed countries around the world) face funding constraints and renewal is seldom adequately funded. The result is that renewal is deferred, and a backlog builds up. Additional expenditure must now be incurred in order to eradicate this backlog. This is an important point: **deferring renewal now will result in a backlog building up that will require additional renewal expenditure in future, greater than that which would be incurred if it is done timeously.**

Maintenance refers to operating expenditure to ensure that an asset achieves its useful life. **Under-expenditure on maintenance means that the condition of the asset will decline more rapidly than anticipated**, requiring a further increase in unplanned maintenance. Deferring renewal also has implications for maintenance expenditure. Assets that are in poorer condition require more maintenance and so deferring renewal increases future maintenance needs. Discussions with officials at SLM indicate that they believe that budgets for maintenance expenditure are largely adequate, aside from on water and electricity where there may be some under-expenditure. It is assumed that **maintenance expenditure must increase by about 10%.**

3.5 Grants and transfers

SLM receives both operating and capital grants and transfers from national (and, to a lesser extent, provincial) government. The transfer system in South Africa is intended to subsidise the provision and renewal of infrastructure and on-going operations and maintenance of this infrastructure for poor households. The rate of growth in transfers and subsidies is thus a key factor influencing on-going financial viability of municipalities.

Operating grants

SLM received R91.5 million in Equitable Share in 2018. This is projected in the Division of Revenue Act to grow to R102 million in 2019 and R114 million in 2020, indicating average annual growth of 11.7% over the three-year period.

Equitable Share allocations have grown strongly in recent years but it is anticipated that this growth will slow considerably over the short to medium term due to constraints on the national fiscus related to low national economic growth. Going forward, the base model has

⁸ Renewal is expenditure on an existing asset which returns the service potential of the asset or expected useful life of the asset to that which it had originally. In other words, renewal extends the Expected Useful Life of the asset. Renewal is capital expenditure and thus funded through the capital budget.

assumed that **operating transfers grow at only 7% per annum** after the MTREF covered by the current Division of Revenue Act period. This is slightly ahead of inflation, which has been assumed at 5.4% per annum.

The implication is that growth in the **Equitable Share will not keep pace with growth in the number of poor households to be subsidised in SLM**. The subsidy received in 2018 is effectively R413.40 per poor household per month. The assumed growth in poor households and assumed rates of growth in Equitable Share allocations indicate that this will decline to R323.25 per poor household by 2028. This creates additional pressure for SLM to cross-subsidise the provision of services to poor households through continued delivery of services and collection of revenue from non-poor households and non-residential customers. SLM cannot neglect these customers if it wishes to ensure its future financial sustainability.

Given the significance of the Equitable Share as a source of revenue for SLM, a scenario of growth in Equitable Share allocations at inflation only is tested and presented in Section 5 of the report.

Capital transfers

SLM receives capital transfers in the form of the Municipal Infrastructure Grant (MIG), Integrated National Electrification Programme (INEP) and Electricity Efficiency and Demand Side Management Grant (EEDSM). According to the Division of Revenue Act, MIG allocations to SLM are expected to grow by 5.5% per annum over the MTREF, in other words at inflation only. INEP and EEDSM allocations are expected to increase fairly rapidly (from R5million INEP to R10million and from R5million EEDSM to R6.8million) but it is not anticipated that this rate of growth will continue.

The base model run has assumed that **capital transfers will increase at the rate of inflation only**, in other words at 5.4% per annum over the model run.

This slow rate of growth in capital transfers has implications for the financing of infrastructure to be provided to poor households. The analysis suggests that the **MIG will be sufficient to cover only 57% of the bulk infrastructure to be provided to poor households over the 10-year model run**. The remainder must be financed by SLM out of its own sources.

3.6 Tariff increases

The extent to which SLM can remain financially viable will depend to a great extent on the tariff increases that it is able to implement. Tariff increases must keep pace with increases in the costs associated with providing services. There are several key factors that drive costs to increase at rates above inflation. *Public sector wage agreements* are nationally negotiated each year by SALGA. These have resulted in **wage increases of 1.5% ahead of inflation** on average in recent years. It is anticipated that similar increases will be negotiated over the analysis period. Increases in the *Eskom bulk electricity price* have already been discussed in Section 3.3 as has the current *under-allowance for operating expenditure related to community and social services* and the need to *increase maintenance expenditure*. Together, these factors are anticipated to drive the unit cost of providing services up at a rate ahead of inflation. SLM has absorbed cost increases to date through increasing efficiencies wherever possible, and will continue to do so, but must pass some of the cost increase on to customers if it is to remain financially viable.

The base model run has assumed **tariff increases of 1.0% ahead of inflation on all rates and services for the full 10-year model run**. For electricity, this is in addition to a pass-on of 74% of the bulk price increase. Tariff increases assumed are shown in the table below.

Table 4: Tariff increases assumed in the financial model

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Electricity	14.0%	9.8%	9.8%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%
All other services	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%

Note that the fact that municipalities are allowed to pass on only 74% of the Eskom bulk price increase results in a ‘surplus creep’ on electricity over time. Municipalities are allowed to pass on only a portion of the Eskom price increase and this progressively reduces the surpluses that municipalities are able to generate on electricity.

The potential impact that tariff increases has on the demand for services has been accommodated in the analysis through price elasticities of demand, already presented in Section 3.3.

4 Results of base model run

The results of the base model run are presented below. This run is considered to be a likely scenario and provides a starting point against which to compare the issues identified in Section 3 of the LTFP. Scenarios investigating the impact of some of these issues on the model results are presented in Section 5.

4.1 Revenue

The base model run finds that operating revenues will increase by 8.6% per annum on average between 2018 and 2028, reaching **R1.69 billion by 2028**. This is slightly slower than the average revenue growth of 10% per annum achieved between 2015 and 2018.

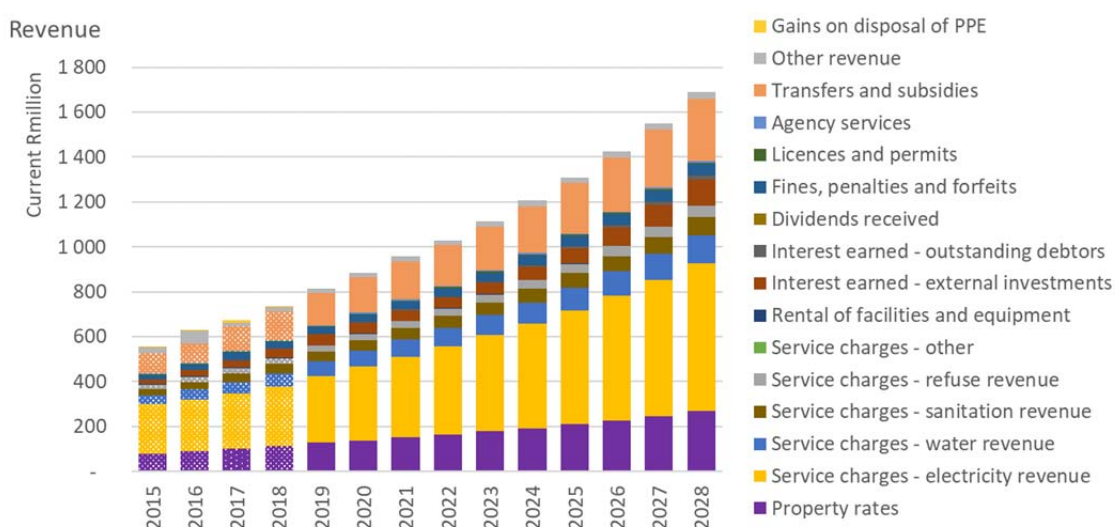


Figure 8: Revenue projections for 2019 to 2028 from the base model run, and historic performance for 2015 to 2018

Further detail on some of the more significant revenue items is provided below.

Property rates

The analysis suggests that revenue from property rates will grow by 8.8% per annum on average over the model period. This is somewhat lower than the MTREF budget, which assumes growth of 9.3%.

Table 5: Anticipated property rates growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
12.9%	9.3%	8.8%

Growth in property rates revenue is linked to the increase in the c in the R property rate levied but strongly driven by the growth in the value of the property rates base. This in turn is driven by rates of non-poor household growth and by economic growth. The relative low rates of anticipated growth in non-poor households as well as the constrained economy limit the growth in this income source for SLM. SLM must continue to invest in infrastructure to support non-poor households and non-residential customers to secure future property rate growth. The impact of reducing investment in infrastructure for these customers is investigated in a scenario in Section 5 further on in the report.

Electricity user charges

The analysis suggests that revenue from electricity user charges will grow by 9.6% per annum on average over the model period. This is slightly less than the MTREF assumptions of 10.6% per annum on average. The increase is strongly driven by the assumed Eskom bulk price increases, due to the assumption that 74% of these will be passed on to customers. The average annual growth in electricity user charge revenue in the analysis from 2020 to 2028 is 9.1%. The tariff increases to accommodate the anticipated Eskom bulk price increase in the first three years of the model run push the overall average annual increase to 9.6%.

Table 6: Anticipated electricity user charge growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
6.4%	10.6%	9.6%

Water user charges

The analysis suggests that revenue from water user charges will grow by 7.7% per annum on average over the model period. This is lower than the historic growth rate of 13.1% but significantly higher than the 0.9% per annum average increase assumed in the MTREF budget.

As already discussed, patterns of water demand are shifting and there is thus a high degree of uncertainty in projecting water revenues. The assumption in the analysis of 80% bounce-back in water demand is considered sound and growth in volumes of water sold of 1.2% per annum on average not unrealistic. With inflation at 5.4% per annum and tariff increases of

1% ahead of inflation, anticipated growth of 7.7% in water revenues is considered a fair projection.

Table 7: Anticipated water user charge growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
13.1%	0.9%	7.7%

Interest on external investments

SLM earned R40 million in interest on external investments in 2018, entirely on its substantial cash balance. This is a significant revenue stream, the fourth largest in the year after only electricity user charges, transfers and subsidies and property rates. Maintaining this revenue stream is one reason to continue to hold large cash balances. The modelling, however, has assumed that some of the cash balance will be used to finance capital expenditure over the next five years. The cash coverage ratio will thus be reduced from close to 12 months currently to 6 months in 2022 before increasing to 8 months by 2028. As a result, the income from interest will grow less rapidly than it has to date although growth is still anticipated to be significantly higher than anticipated in the MTREF budgets.

Table 8: Anticipated interest on external investments growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
25.7%	4.0%	11.1%

Operating transfers and subsidies

As already discussed, operating transfers and subsidies have been growing strongly historically. The model has assumed that growth will decline to 7% per annum after the MTREF period, although it averages 11.7% per annum over the MTREF according to the Division of Revenue Act. This results in growth of 7.7% per annum on average. The SLM MTREF budgets are very conservative with regard to anticipated growth in operating transfers and subsidies.

Table 9: Anticipated growth in transfers and subsidies compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
12.4%	-5.1%	7.7%

4.2 Expenditure

The base model run finds that operating expenditures will increase by 9.1% per annum on average between 2018 and 2028, reaching **R1.6 billion by 2028**.

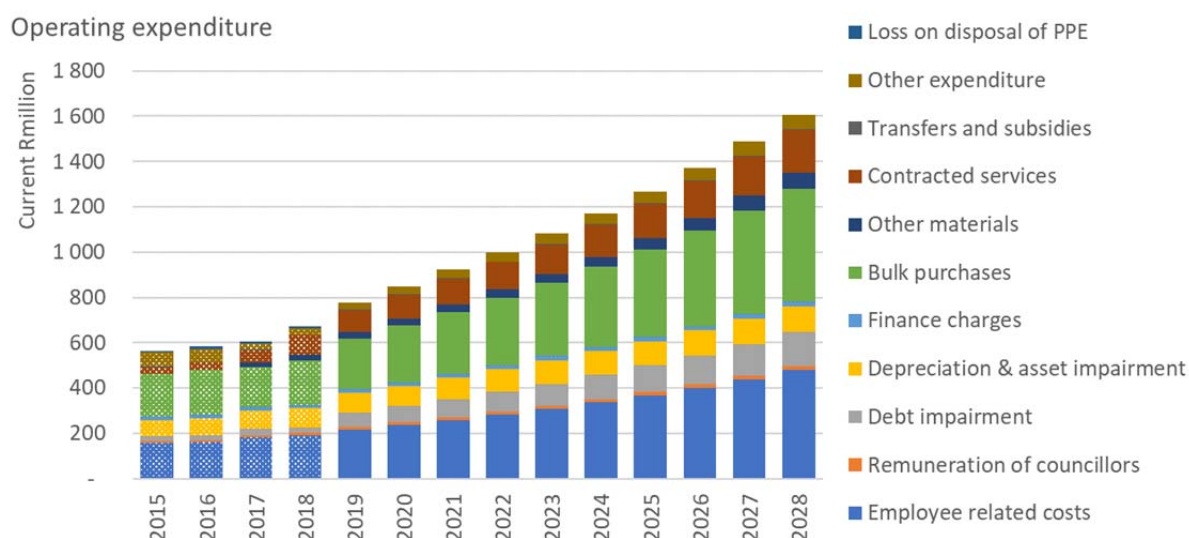


Figure 9: Operating expenditure projections for 2019 to 2028 from the base model run, and historic performance for 2015 to 2018

Further detail on some of the more significant expenditure items is provided below.

Employee related costs

The projections show employee related costs growing at 9.5% per annum on average over the 10-year model run, higher than historic growth of 7.3% per annum but well aligned with the MTREF budgets of 9.4% per annum. There is a step increase in employee numbers in 2019 due to the need for increased staffing for operating and maintaining community and social services, discussed in Section 3.3. The need for increased maintenance expenditure also requires additional employees. Beyond 2019, staff numbers are assumed to grow at approximately 2.2% per annum on average to keep pace with growth in the municipality. The wage bargaining council agreements to increase salaries at about 1.5% per annum ahead of inflation on average further drives the anticipated increase in employee related costs.

Table 10: Anticipated employee related costs growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
7.3%	9.4%	9.5%

The anticipated growth in employee related costs means that this rises from 29% of operating expenditure in 2018 to 30% in 2028. This is still well within the National Treasury norms of 25 to 40%.

Debt impairment

SLM has historically achieved strong collection rates in excess of 95%. As discussed in Section 3.2, collection rates on water have come under pressure in recent years and the continued roll-out of housing is assumed to place further downward pressure on collection rates. The impact of this is a need to allow for higher debt impairment than has been necessary in recent years. There is a step increase in debt impairment from R23 million in 2018 to R65

million in 2019. Debt impairment grows at 9.9% per annum after 2019, but with the step increase in 2019, the average annual growth between 2018 and 2028 is 20.8%.

Table 11: Anticipated debt impairment growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
3.8%	27.7%	20.8%

Depreciation and asset impairment

The need to depreciate and potentially impair assets increases as investment in new capital assets rises. It is driven in the analysis by the capital programme assumed which in turn is constrained by available capital finance, as discussed in Sections 4.5 and 4.6.

Table 12: Anticipated depreciation and asset impairment growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
4.7%	6.7%	2.8%

Bulk purchases

Growth in bulk purchases is driven by the growth in electricity volumes purchased, which is 0.5% per annum on average, and rises in the bulk electricity purchase price. The average anticipated growth over the full 10-year model run is 9.9%, but the model projects an increase of 12.9% per annum between 2018 and 2020 due to the bulk electricity price increases assumed. This is still somewhat lower than the increases in bulk purchase expenditure assumed in the MTREF budget.

Table 13: Anticipated bulk purchases growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
1.1%	14.9%	9.9%

Other materials

Under mSCOA, bulk water purchases are recorded as inventory under 'other materials' and not as bulk purchases. A portion of other materials is related to maintenance and so increasing expenditure on maintenance will result in increases in this expenditure above inflation. The anticipated R2.00 per kl rise in the bulk water price due to the need for Department of Water and Sanitation or WCDM to develop new water sources, or for SLM to start purchasing water from City of Cape Town, further results in an increase in expenditure on other materials. The anticipated average annual growth of 10.6% per annum in this expenditure item is well aligned with the anticipated growth in the MTREF budgets.

Table 14: Anticipated other materials growth compared to actuals and budget⁹

Average growth in actuals per annum 2017/18 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
47.9%	10.6%	10.6%

Contracted services

SLM saw a step increase in expenditure on contracted services in 2018, with this expenditure item rising from R58 million in 2017 to R88 million in 2018. This was due to the reclassification of expenditures due to the implementation of the Municipal Standard Chart of Accounts (mSCOA). 66% of the contracted services in 2018/18 were maintenance. Other large contracts include litter picking and street cleaning, the management of the dumping site, and research and advisory services.

The modelling has assumed that maintenance expenditure must thus increase further in order to accommodate current under-provision for maintenance. Beyond this, the analysis has assumed that expenditure on contracted services will increase at inflation only.

The continued growth in contracted services in the analysis is in contradiction to the anticipated reduction in contracted services in the MTREF budgets.

Table 15: Anticipated contracted services growth compared to actuals and budget

Average growth in actuals per annum 2015/16 to 2018/19	Average growth in budget per annum 2018/19 to 2020/21	Average anticipated growth per annum 2018/19 to 2028/29
38.9%	-24.8%	7.9%

4.3 Operating surplus

The net impact of the revenue and operating expenditure projections summarised above is a decline in operating surplus in 2019, with surplus remaining relatively steady at a lower level between 2019 and 2023. Operating surpluses are projected to increase steadily from 2023.

⁹ Note that historic growth in 'other materials' must be interpreted with caution as the expenditure allocated to this item changed significantly with the introduction of mSCOA. SLM did not record any expenditure against this item prior to 2017/18.

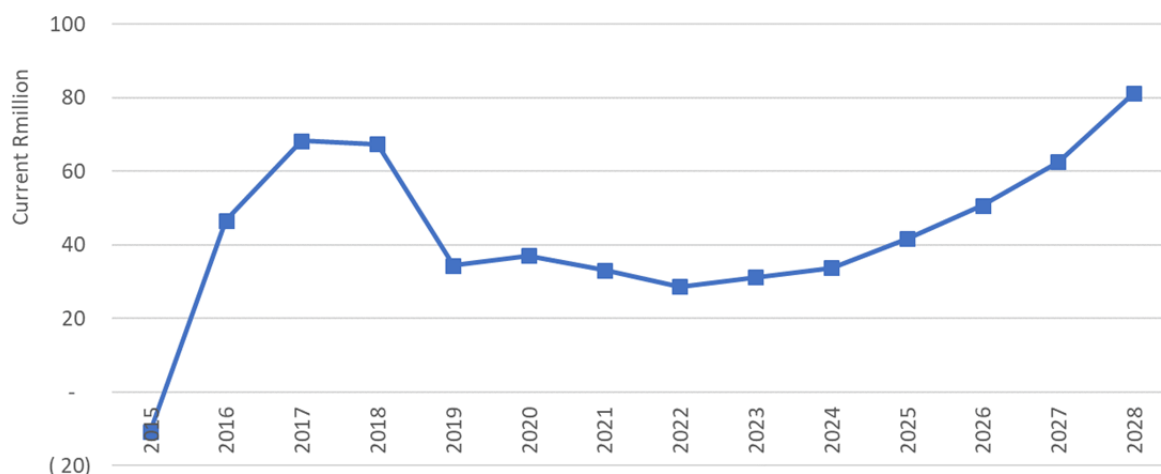


Figure 10: Operating surplus (prior to capital transfers) projections for 2019 to 2028 from the base model run, and historic performance for 2015 to 2018

4.4 Cash

SLM had a closing cash balance of R525 million in 2018. This is almost 12 months cash coverage. It is the intention of SLM to maintain high levels of cash coverage. This provides security and lowers risk. It allows SLM flexibility to respond to favourable conditions in financial and construction markets and acts as a useful crisis reserve. SLM currently generates strong interest income based on its cash balance. This is currently an important revenue source and SLM intends to maintain this going forward. In addition, having a strong cash position puts SLM in a strong negotiating position regarding borrowing terms. It is always best to borrow from a position of strength as lenders consider risk when setting the terms that they are willing to offer on loans. Finally, a strong cash position results in a lower dependence on grant finance promotes autonomy and own authority.

It is assumed in the analysis that cash coverage will not be allowed to decline below 6 months. The projections suggest that cash coverage will decline to 6 months by 2021, largely in order to finance the capital programme, but will then increase again, reaching 8 months by 2028. Note that cash balances in a growing municipality must increase over the long term, even if cash coverage ratios are to be maintained at a fixed level.

Cash balance and cash coverage



Figure 11: Cash projections for 2019 to 2028 from the base model run

Cash will be an important source of finance for the capital programme in SLM, particularly over the next five years. It is recommended that cash be kept fluid and used as a revolving fund to invest in infrastructure¹⁰.

4.5 Capital expenditure

In order for the municipality to achieve its developmental mandate, and to maintain and invest in capital assets to keep it at its current level, there is a need for **investment of an estimated R1.7 billion over 10 years (in 2018 Rands)**. This implies capital expenditure of R171 million per annum on average in 2018 Rands, 9% higher than the average capital expenditure budgets for the next two years of R155 million¹¹.

Capital investment need by sector

The breakdown of capital investment need by sector is shown in the table below compared to the budgets and represented graphically in the figure below.

Table 16: Capital investment need by sector compared to budgets

	Average of budget for 2019 and 2020 2018 Rmillion p.a.	Average of 10-year need estimate 2018 Rmillion p.a.	Need as a % of average budget
Governance and administration	6	6	89%
Community and public safety	9	19	212%
Roads and stormwater	30	40	135%
Electricity	22	30	135%
Water	4	30	794%
Wastewater management	51	27	53%
Waste management	5	12	254%
Other economic and environmental services	28	6	22%
Other	0	1	
TOTAL	155	172	110%

¹⁰ A 'revolving fund' here means that cash is replenished when it is used to finance capital expenditure and that adequate cash balances thus remain available to finance future capital expenditure.

¹¹ Note that this estimate of need excludes any additional renewal backlog that is generated if current low levels of infrastructure maintenance continue. In other words, the estimate is based on the assumption of adequate maintenance. Average budgets exclude housing subsidies, as housing top structure delivery are not considered municipal infrastructure.

Average capital need over 10 years by sector compared to average budget

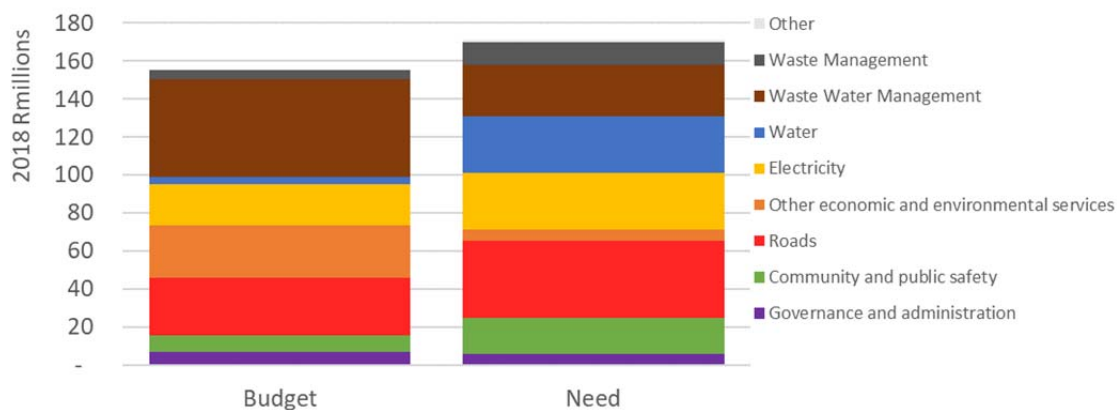


Figure 12: Average capital budget for 2019 and 2020 per sector compared to annual average estimated investment need

Differences between estimated investment need and budgets are commented on below:

- The estimates find that budgets for community and public safety are lower than need. The estimates of need have assumed that investment is required to allow for growth and that levels of service for existing customers are largely adequate. The higher need thus is not due to substantial expansion in community and social services to the existing population, rather it is due to inadequate allowance for the renewal of infrastructure, discussed in the next sub-section.
- The estimated need for investment in roads and stormwater infrastructure is 35% higher than the average budgets for the MTREF. This is in line with the views of the Civil Engineering Services department, who estimate that there is a backlog of R546 million in roads upgrading, resealing and rehabilitation.
- The estimated need for investment in electricity infrastructure is 35% higher than average MTREF budgets. Electrical Engineering Services indicate that renewal is not the primary issue for this service but rather that there is significant increased investment in new infrastructure required. This is due not so much to growth but to the fact that growth has not happened as anticipated in the MSDF. In particular, unanticipated growth on the south-western side of Malmesbury will require substantial additional investment in new bulk electricity infrastructure, while leaving under-utilised bulk capacity available to the north of the town.
- The biggest difference between budgets and estimated need is on the water service. This is largely because SLM took over the responsibility for capital expenditure on the bulk service from the West Coast District Municipality in 2017/18¹². This has a significant impact on the infrastructure investment need for the municipality. As already noted, there is key uncertainty here. A recent Master Plan prepared by GLS Consulting

¹² A Section 78 process regarding the provision of the bulk service is still underway at the time of writing this report but it is likely that the District will continue to operate the bulk network. However, the bulk assets have been transferred to the local municipality, who will now be responsible for capital expenditure on new assets as well as renewal, as well as raising the finance for this expenditure.

Engineers indicates that R327 million must be spent over 10 years on expanding capacity and renewing the bulk infrastructure. However, the need for capacity expansion will be very dependent on the extent to which water consumption levels bounce back from the current very low post-drought levels. There is certainly a need for significant renewal on the bulk network.

- The model finds that the need for investment in sanitation infrastructure is slightly lower on average over the 10 years than the MTREF budgets. A third of the total SLM budgets over the next 2 years is sanitation infrastructure. It is not expected that this level of investment will need to be sustained after 2020.
- The analysis finds that the need for investment in solid waste infrastructure is more than double the budgeted amounts. This is largely due to the need to continue to replace fleet as it ages. Civil Engineering Services have also identified a number of other possible drivers of the need for further investment in solid waste infrastructure in future, including the need to improve management of green waste and the purchase of new fleet to allow for the introduction of a 'wheelie bin' waste collection system.

Drivers of capital investment

There are two key drivers of capital investment. Firstly, the need to provide new infrastructure to allow for the extension of services to those currently unserved (backlog eradication) and for growth¹³. Secondly, the need to renew existing infrastructure in order to extend its useful life.

The split of infrastructure investment need for new infrastructure compared to renewal is shown in the figure below, compared to the average split in the budgets for 2019 and 2020.

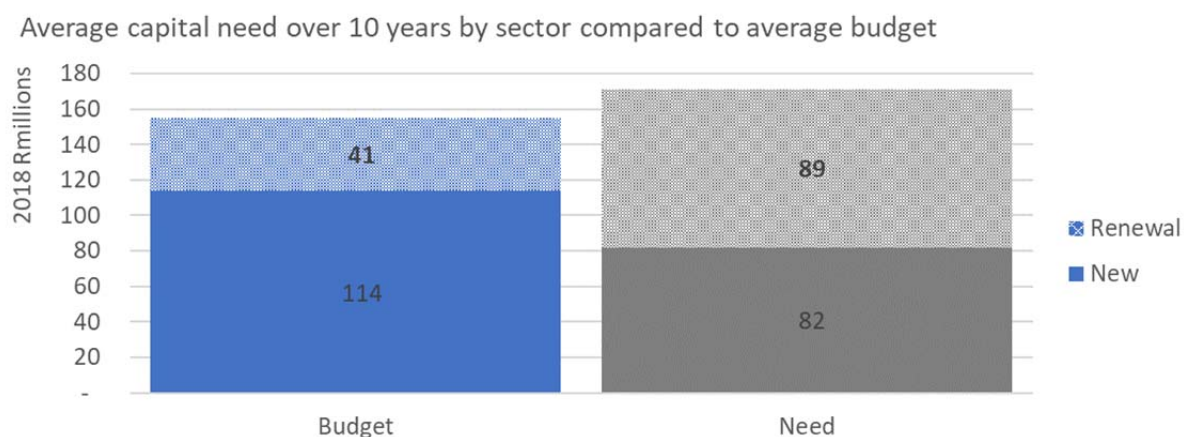


Figure 13: Average annual capital budget for 2019 and 2020 on new infrastructure and renewal, compared to annual average estimated investment need

The renewal estimates above have been tested with Aurecon Consulting Engineers. They estimate the provision for renewals per year at between R103 (based on a 20-year renewal period) and R 161 million (based on consumption rate). The estimates used in the LTFP analysis are thus somewhat lower than the Aurecon estimates of the renewal need. The

¹³ Note that upgrading the capacity of existing infrastructure is included under this 'new' category here.

lower value used in the analysis was primarily due to inputs from the Electrical Engineering Services, who believe that the higher renewal estimates overstate the need for renewal of electricity infrastructure. This was thus modified down in the analysis.

The budgets allocate about 26% of capital expenditure to renewal on average. The assessment of need, however, suggests that **52% of need is for renewal**. Current budgets are under-allowing for renewal. The estimates of investment need for new infrastructure suggest that current budgets exceed the actual need for new infrastructure. This is due largely to the current large budgets for new wastewater infrastructure.

Proportion of need that is for new infrastructure for poor households

Classifying infrastructure need into ‘for the poor’ and ‘not for the poor’ is somewhat artificial, as individual items of infrastructure usually serve a mix of poor households, non-poor households and non-residential customers. However, understanding the extent to which new infrastructure is need for poor households is important when considering the appropriate finance mix, as grant funding can typically only be used to finance infrastructure for poor households.

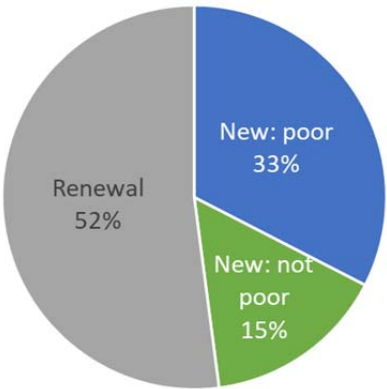


Figure 14: Mix of estimated infrastructure investment need between renewal, new infrastructure for the poor and new infrastructure not for the poor

The figure adjacent shows that most of the need for new infrastructure is for poor households. New infrastructure that is not for the poor (i.e. for non-poor households or non-domestic customers) is only 15% of the total need for infrastructure over the next 10 years. The need for infrastructure renewal exceeds the infrastructure required for growth.

Infrastructure that is for the poor is not revenue generating, while infrastructure that is not for the poor does generate revenue. The figure above suggests that the need for infrastructure for the poor in SLM is double that of the need for infrastructure not for the poor. This is a result of the higher growth rates in poor populations as well as the relatively stagnant economic growth. SLM must continue to invest in infrastructure for the poor in order to achieve its developmental mandates, but it is very important that investment in infrastructure that is not for the poor is not neglected. This plan has already noted several times that cross-subsidisation of poor households by non-poor households and non-domestic customers is vital to ensure financial sustainability. This is even more so in an environment where growth in operating grants is not expected to keep pace with growth in number of poor households. The ability to cross-subsidise means that the provision of services to non-poor households and non-domestic customers must be of high quality in order to ensure continued satisfaction and willingness to pay from these customers.

As grant funding cannot be used for investment in infrastructure that is not for the poor, SLM must ensure that it has sufficient own funds available to finance investment in

infrastructure not for the poor. This requires that adequate cash balances be maintained in order to finance capital expenditure directly or to finance borrowing.

Capital expenditure need per annum in current Rands

The R171 million per annum average need is expressed in 2018 Rands. With inflation factored in, capital expenditure needs to increase to R293 million by 2028.

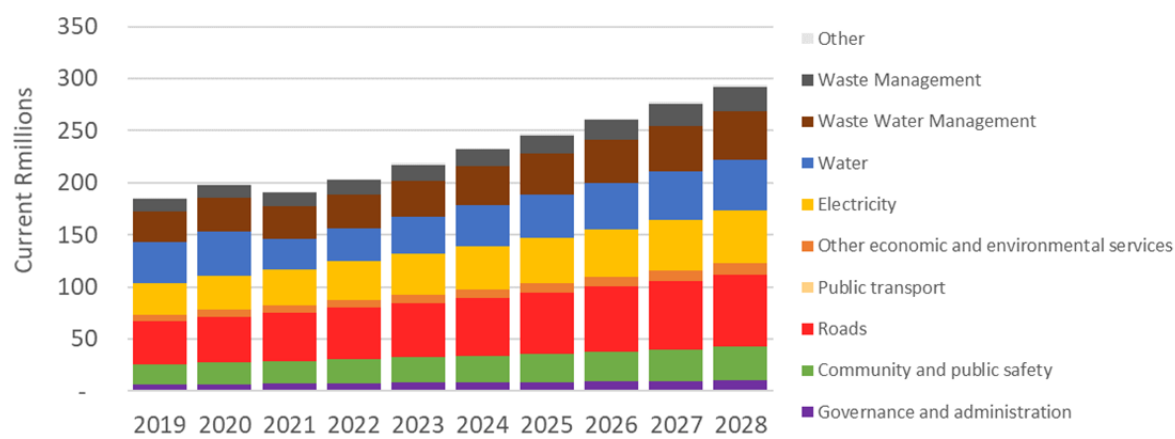


Figure 15: Estimated capital investment need per annum in current Rmillions

Affordable capital expenditure

The base model run indicates that **SLM is not able to afford the full capital investment need**. The affordable capital programme indicated in the analysis is R1.2 billion over 10 years, suggesting average affordable expenditure of R120 million per annum. This is lower than the average capital budget of R155 million for 2019 and 2020, but higher than the average actual capital expenditure of R90 million per annum incurred between 2015 and 2018.

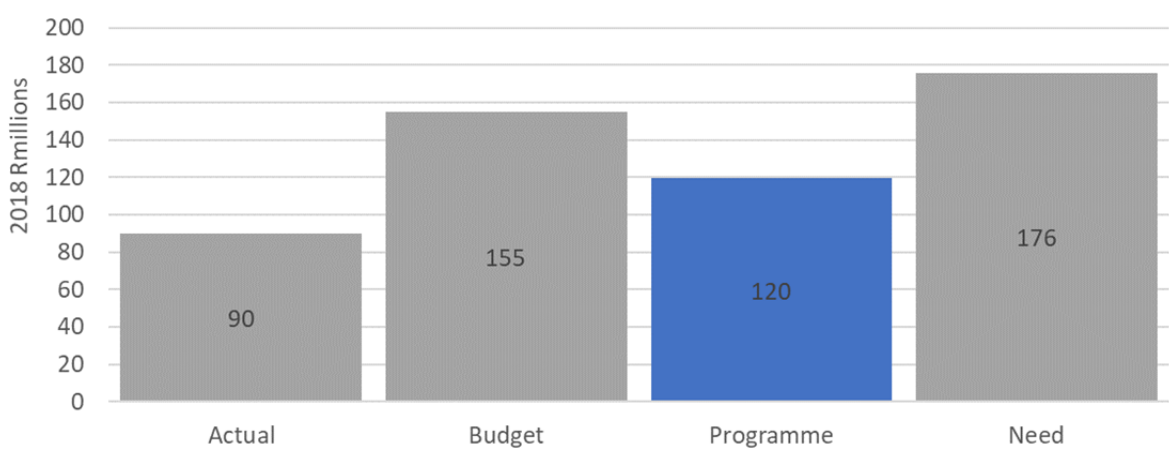


Figure 16: Average affordable capital programme per annum compared to average actual expenditure between 2015 and 2018, average budgets for 2019 and 2020, and estimated investment need

The analysis has assumed that reductions in the capital programme will take place by reducing capital expenditure on renewal compared to the assessed need. This is based on an assessment of current prioritisation of new versus renewal expenditure. Even with reduced expenditure on renewal, the analysis suggests that the **affordable capital programme should give more priority to renewal**, allocating at least 31% of capital expenditure to renewal on average over the next 10 years.

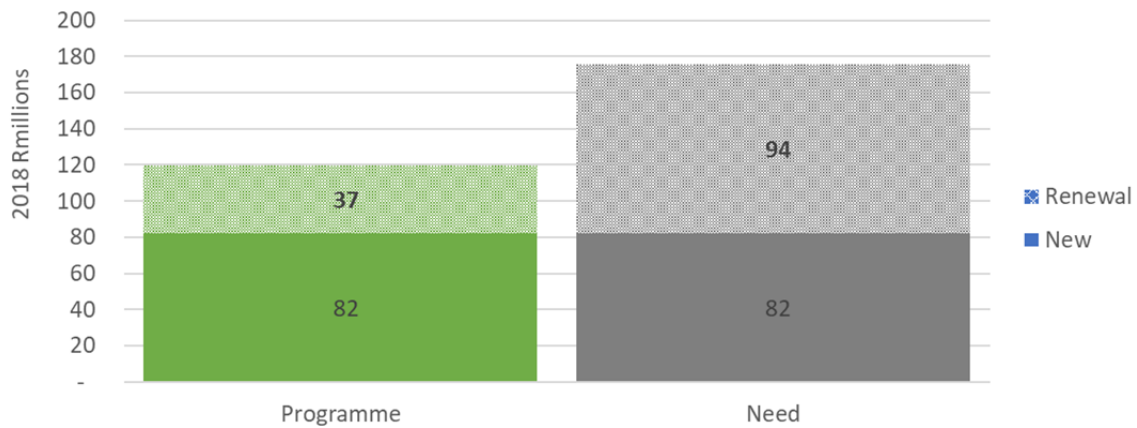


Figure 17: Mix of average affordable capital expenditure on new infrastructure and renewal compared to average estimated capital expenditure need

Implications for asset condition

The base model run has assumed that maintenance expenditure is increased to adequate levels but finds that SLM cannot afford to spend adequately on renewal on the capital account. As a result, **asset condition is projected to decline**.

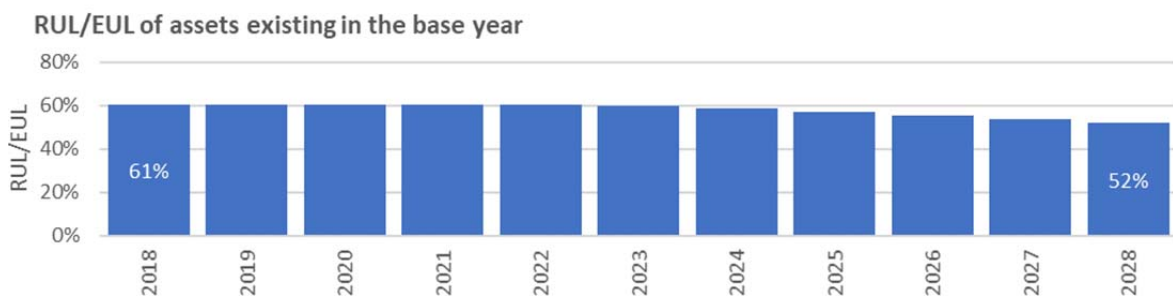


Figure 18: Projection of anticipated condition of assets as measured by RUL/EUL over 10 years

As already noted in Section 3.4, few municipalities are able to spend as much on renewal as they need. The goal of Infrastructure Asset Management is to *'provide the best possible service to the user within the constraints of available resources'* (Little, 2012, p.8). This is essentially a risk management process and involves assessing both the condition and the criticality of assets in order to prioritise spending of limited renewal funding on the assets that present the highest risk of failure. The analysis presented here indicates that **sound asset management will be very important to SLM to manage the risk of declining asset condition in a constrained financial environment**.

Prioritisation of capital expenditure

The analysis suggests that SLM will not be able to afford the full capital investment need over the next 10 years. SLM will thus be functioning in a constrained capital finance environment. This makes the prioritisation of capital investment and selection of capital projects for approval very important. A few specific points are raised here.

Firstly, while SLM must continue to provide infrastructure that is for the poor in order to deliver on its social mandate, it must also ensure that sufficient priority is given to investment in infrastructure that is not for the poor and is thus revenue generating. This infrastructure is vital to ensure financial sustainability and ability to cross-subsidise the poor going forward. The analysis conducted for the LTFP shows that about R213 million must be

invested in new infrastructure not for the poor (non-poor households and non-domestic customers) over the next 10 years. This will result in an additional R384 million in revenue generated over the period. In other words, every Rand invested in infrastructure not for the poor over 10 years generates R1.80 in additional revenue over the same period. This is a strong return on investment and is vital for the financial sustainability of the municipality. A scenario in Section 5 of the plan highlights the negative impact of under-investing in this infrastructure.

Secondly, the analysis suggests that SLM will not be able to spend adequately on the renewal of infrastructure. SLM should, however, increase the share of the capital budget that is spent on renewal. Renewal projects should be prioritised based on an assessment of the condition and criticality of assets.

Finally, the physical location of projects should be considered and projects in high potential areas, ideally those identified in the MSDF, should be prioritised. This is to ensure alignment of growth and the development of bulk infrastructure capacity.

4.6 Capital financing

SLM is in a strong cash position and is thus able to finance a large proportion of its capital programme from internally generated funds. The availability of these funds, however, will be reduced over the next 10 years. SLM also has access to grants and transfers, housing subsidies and development charges to finance capital expenditure. Finally, it can choose to make more use of borrowing.

The capital finance mix proposed in the base model run is shown below.

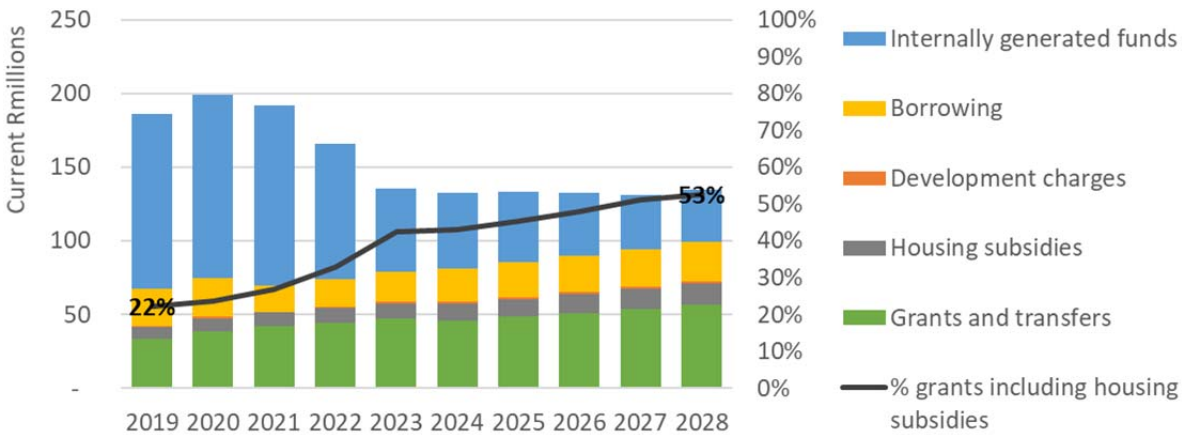


Figure 19: Projected sustainable capital finance mix

The shape of the graph shows that SLM is able to spend the capital investment need for the first three years of the model run. This is due to the current high levels of cash available. However, this reduces cash coverage until it reaches 6 months by the end of 2022, regarded as the lowest acceptable limit by SLM. From this point, levels of available cash become more constrained and the capital programme must be reduced. Borrowing becomes an important element of the financing mix in the later years as cash becomes more constrained.

Table 17: Projected affordable capital finance mix over the first and second five years

	2019 to 2023	2023 to 2024
Grants and transfers incl housing subsidies	28%	48%
Development charges	0.5%	1.2%
Borrowing	12%	18%
Internally generated funds (cash)	59%	33%

Comment on each finance source is provided below.

Capital grants and transfers

Capital grants and transfers are relatively static in the Division of Revenue Act, with little real growth. As already noted, the analysis has assumed that the level of these transfers will remain fixed in real terms and that capital grants and transfers will increase only at the inflation rate.

Housing subsidies

The housing programme is a key driver of the need for new infrastructure by poor households. Municipalities can use a portion of the housing subsidy to finance the internal infrastructure associated with housing. For a 243m² house with a 9m street front, this is about R46 000 per unit at present. SLM tries to keep the actual costs to within this limit. As already noted, the subsidy does not cover the cost of bulk infrastructure or link roads, connecting new subsidised housing developments to existing towns, for example. This must be covered out of SLM's own sources or the MIG. Also as already noted in Section 3.5, the analysis here finds that MIG will be sufficient to finance only 57% of the bulk infrastructure to be provided to poor households over the 10-year model run. The remainder must be financed by SLM out of its own sources.

The proportion of the capital expenditure financed through capital grants and transfers, including housing subsidies, is 53% by 2028. This is acceptable considering that 56% of the households in SLM by 2028 are anticipated to be poor. However, it does demonstrate that the increased financial pressure on SLM due to high rates of poor household growth, limited economic growth, continued roll-out of subsidised housing and constrained growth in operating transfers is anticipated to make the municipality increasingly dependent on capital grants in future.

Development charges

According to National Treasury (2009) a development charge is: *“a once-off infrastructure access fee imposed by a municipality on a developer as a condition of approval of a land development. The development charge is levied to recover the cost of an intensification of land use and an increase in the use of existing municipal engineering services (i.e. brownfield developments) and/or to finance the provision of new municipal engineering services (i.e. greenfield development).”*

To date, development charges in South Africa have largely been levied on a development by development basis based on negotiation. There has been a degree of competition between

municipalities with regard to the levels of development charges, as keeping these low has been seen as a way to attract private development and thus stimulate economic growth. Development charges are typically significantly under-recovered by municipalities. The National Treasury policy on development charges referenced above, which remains in draft form, is an effort to introduce more uniformity regarding the way in which they are calculated and to encourage municipalities to utilise this capital funding source more fully.

New bulk infrastructure for non-poor households or non-domestic customers is a relatively small proportion of the total infrastructure investment need, around 5%. SLM is currently recovering only a small proportion of this cost through development charges, receiving R1.6 million per annum on average over the past four years. It is unlikely that the levels of development charges recovered will increase significantly.

Own sources: borrowing and internally generated funds

SLM has a choice with regard to how it wishes to use its cash surpluses to finance infrastructure. It can either spend these directly (as internally generated funds) or use them to finance borrowing. Borrowing does not create new money but rather makes money available earlier. It thus allows for the acceleration of infrastructure investment. It is sensible to borrow to finance infrastructure that will generate revenue in future because this unlocks this revenue more rapidly. New borrowing must be taken up prudently and with certainty that there are the cash flows to service it in future but where borrowing is possible it accelerates the capital programme while allowing cash balances to be maintained. This is demonstrated below by comparing a scenario with no borrowing to the base scenario with a prudent borrowing programme, as presented in Figure 19.

The scenario with no borrowing results in higher operating surpluses because there is less interest expense.

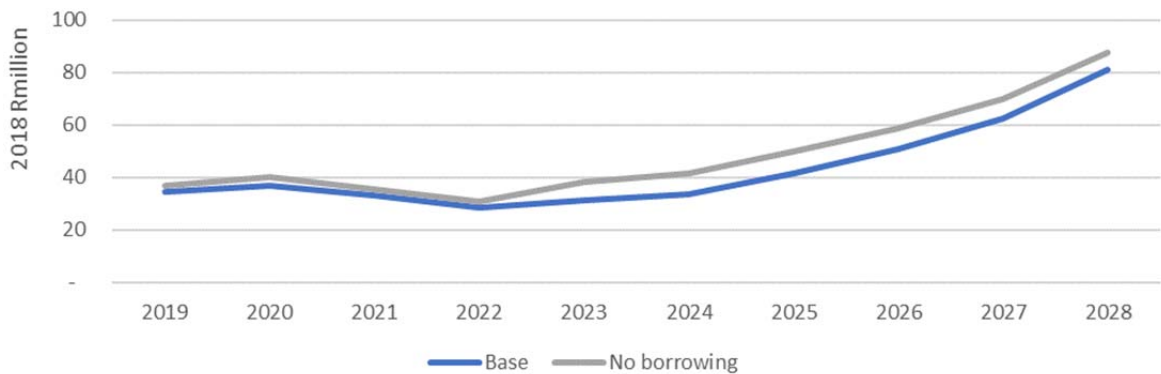


Figure 20: Comparison of projected operating surplus under a base scenario with borrowing and a no borrowing scenario

However, the scenario with no borrowing results in a slightly weaker cash position because cash must be directly invested in infrastructure.

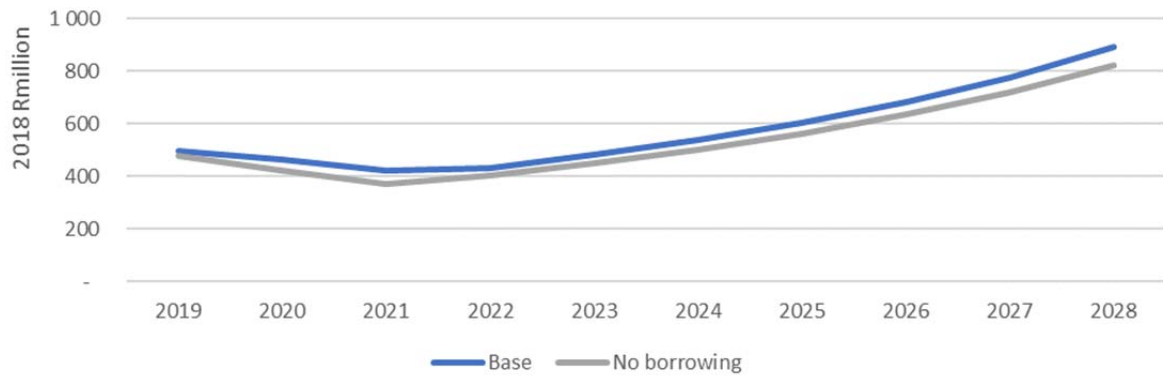


Figure 21: Comparison of projected cash position under a base scenario with borrowing and a no borrowing scenario

With regard to capital expenditure, borrowing allows for acceleration of the capital programme. More capital expenditure can be incurred in 2022 and 2023 under the borrowing compared to the no borrowing scenario. In the later years, the no borrowing scenario allows for slightly higher capital expenditure. In total over the 10 years the capital expenditure programme with borrowing is marginally (R10 million or 1%) higher than that with no borrowing.

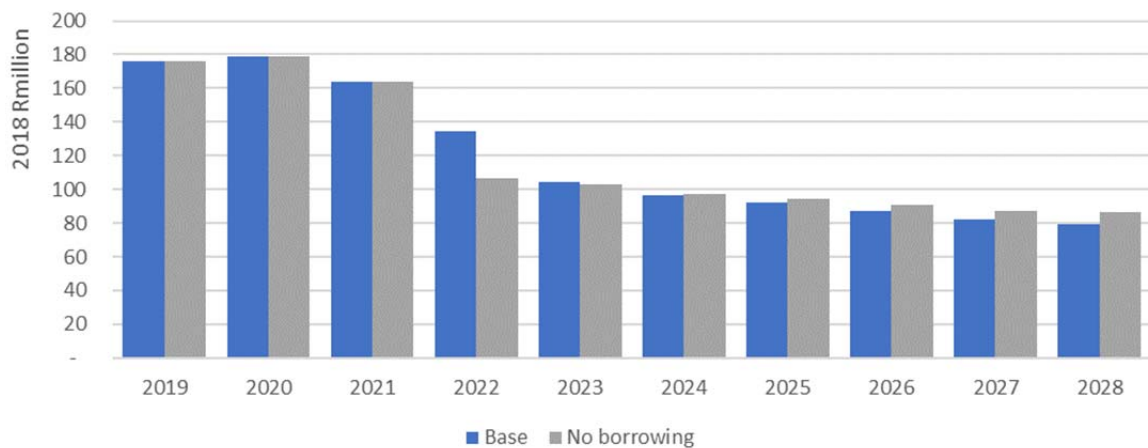


Figure 22: Comparison of affordable capital expenditure under a base scenario with borrowing and a no borrowing scenario

In summary, prudent borrowing will allow SLM to accelerate the affordable level of capital expenditure while maintaining strong cash coverage and adequate operating surpluses.

The scenario in Figure 19 represents a prudent borrowing scenario, with borrowing targeted only at new infrastructure for non-poor households and non-domestic customers. The approximate level of affordable borrowing per annum is shown in the figure below.

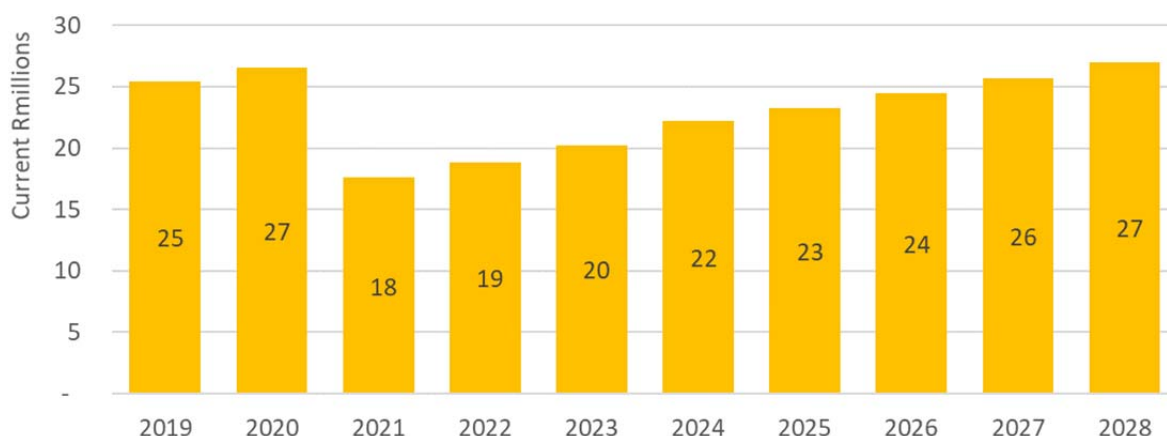


Figure 23: Projected level of affordable borrowing in the base model run

Figure 19 earlier in this section shows that SLM can rely heavily on cash to finance its capital programme for the first four years of the 10-year period. After this point, the availability of cash to finance capital expenditure becomes more limited. SLM will become more reliant on borrowing. Continuing to take up prudent levels of borrowing will be key to financing the capital programme.

In order to ensure the sustainability of borrowing, it should be used to finance infrastructure that is revenue generating. The revenue generated from new infrastructure for non-poor households and non-domestic customers ensures that debt can be repaid.

This projection based on the assumption of fairly standard borrowing terms of a 10% interest rate over a 10-year loan period. SLM's strong financial performance places it in a strong position to negotiate more favourable loan terms, which can improve the affordability of borrowing and allow more debt to be taken up. SLM can target an interest rate of between 160 and 180 basis points above the 10-year government bond yield, which has ranged between 8.15% and 8.35% in September and October 2019, with an average yield of 8.26%¹⁴. SLM should also try to negotiate longer loan terms where possible, as these more closely match the useful life of the assets to be financed. However, longer loan terms sometimes come at an interest premium

In fact, the high level of cash coverage and the size of the proposed capital programme (R1.2 billion over 10 years) in SLM makes a bond issue a possibility¹⁵. A bond is a financial instrument to raise funds from the capital market by which the authorised issuer undertakes to repay the holder the principal debt and a coupon (similar to interest on a loan) at a predetermined later date. Bonds are desirable for financing infrastructure due to the timing of payments, with only a coupon paid over the term of the bond and a bullet payment on capital at the end. Bonds also allow the municipality to remain in control of the lending conditions and write the project information themselves rather than having a legally determined prospectus. Finally, it is possible to fix the interest rate on a bond with the

¹⁴ <https://za.investing.com/rates-bonds/south-africa-10-year-bond-yield-historical-data>

¹⁵ The size of issue is large enough to attract potential investors without pooling with other municipalities. Pooling has some advantages but also creates complexity when listing and preparing the bond and often requires credit enhancement to bring all participants to the same credit worthiness. SLM should be able proceed with a bond issue with no pooling.

interest rate risk fully carried by the investor. The bond issue potential for SLM is relatively small which means that a listed bond would be unlikely to be possible, but an unlisted bond still carries the advantages of a bond with only a small liquidity premium.

4.7 Key ratios

Key ratios for a sample of financial years are provided below. Ratios for all financial years are provided in an annexure to this report.

Table 18: Key financial ratios

	National Treasury norm	2018	2019	2024	2028
Financial performance					
Net operating surplus margin	= or > 0%	10.0%	4.4%	2.9%	5.1%
Non- Revenue Electricity	7% to 10%	5.5%	5.5%	5.5%	5.5%
Non-Revenue Water	15% to 30%	16.5%	16.5%	16.5%	16.5%
Revenue growth		9.7%	10.2%	8.2%	8.9%
Expenditure growth		11.0%	16.2%	8.3%	8.0%
Employee related costs	25% to 40%	29%	28%	29%	30%
Contracted services	2% to 5%	13%	12%	12%	12%
Own source revenue share		82.4%	82.4%	82.7%	83.8%
Capital programme					
Own funded capex share		62.3%	77.3%	55.8%	46.1%
Capital expenditure to total expenditure	10% to 20%	12%	19%	10%	8%
Financial position					
Collection rate	>=95%	90%	90%	89%	88%
Debtors days	<=30 days	70	70	70	70
Capital cost as a % of operating expenditure	6% to 8%	3.7%	3.0%	3.5%	3.2%
Debt to revenue	45%	18%	18%	14%	9%
Current ratio	1.5 to 2.0	5.16	5.48	7.32	8.61
Cash coverage	1 to 3 months	11.3	9.5	6.7	8.0

5 Impact of selected issues on financial projections

Section 3 of this LTFP introduced a number of key issues that have informed this financial plan, while Section 4 presented the results of a base model run. This showed that SLM can continue to perform strongly on the operating account and can maintain a strong cash position, but that it cannot generate sufficient capital finance to fund the full capital investment need.

This section now returns to the key issues raised in Section 3 and assesses the impact that each potentially has on the base model results.

5.1 Housing delivery

Section 3.2 earlier in the report highlighted the potential issues related to rapid housing delivery. This creates large numbers of poor customers with low ability to pay for services and thus increases the demand for cross-subsidisation, particularly in a constrained grant environment such currently experienced.

The base model run assumed housing delivery of 350 units per annum. A higher housing delivery scenario, with the 1 000 housing opportunities targeted in the housing pipeline per annum, was considered. The impact on key financial parameters is shown in the table below.

Table 19: Comparison between higher housing delivery and base scenario

	Base scenario	Higher housing delivery	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	69 765	86%
Capital expenditure need over 10 years (Rmillion)	1 712	1 930	113%
Affordable capital expenditure as % of need	70%	67%	
Asset condition by 2028	52%	50%	

Table 19 shows that more rapid housing delivery worsens financial performance. There is a reduction in the operating surplus. The capital investment need is higher under this scenario, and a smaller proportion of it is affordable. Because the affordable investment is further from the need, the asset condition by 2028 is worse than in a more moderate housing scenario.

5.2 Collection rate

Section 3.2 raised the issue that the rapid rate of housing delivery is expected to result in a decline in collection rate over 10 years, specifically that collection rates on rates and services will decline by 2% over the 10-year model run. A scenario with no decline in collection rate was tested to demonstrate the extent to which the decline in collection rate impacts financial performance.

Table 20: Comparison between no decline in collection rate and base scenario

	Base scenario	No decline in collection rate	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	100 681	124%
Capital expenditure need over 10 years (Rmillion)	1 712	1 712	100%
Affordable capital expenditure as % of need	70%	74%	
Asset condition by 2028	52%	53%	

This is the only scenario of those run that shows an improvement in performance. If the collection rate does not decline, the operating surplus in 2028 is 24% higher than it would have been under the base scenario. This improved operating performance improves the ability to finance the capital programme and the affordable capital programme is a higher proportion of need under the scenario with no decline in collection rate. This in turn results in better asset condition by 2028.

Ensuring that collection rates do not decline, even as housing and the associated high levels of infrastructure services are rolled out to poor households in low growth areas and areas where Eskom provides electricity, requires firm enforcement of credit control and debt collection policies which in turn requires strong political backing. A culture of payment must be ensured across all communities in Swartland, including in poorer populations some of which may be made up of people who have migrated in from municipalities where a requirement to pay for services was not enforced.

5.3 Changing patterns of water demand

The high degree of uncertainty regarding water demand has been mentioned several times in the report. A scenario with domestic water demand 'bouncing back' all the way to pre-drought levels was tested in the analysis to demonstrate this issue.

Table 21: Comparison between higher water bounce back and base scenario

	Base scenario	Higher water 'bounce back'	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	80 786	99%
Capital expenditure need over 10 years (Rmillion)	1 712	1 797	105%
Affordable capital expenditure as % of need	70%	68%	
Asset condition by 2028	52%	51%	

Higher bounce back in water demand has a negative effect on financial performance for SLM. This is partly because of the patterns of demand: many of the households who will now be using more water pay tariffs that are below cost for this water and so the additional revenue generated through increased sales does not compensate for the additional operating expenditure incurred. There is also, however, an impact on the capital account.

Higher water bounce back increases the strain on the capacity of the bulk water system and requires additional capacity expansion over the next 10 years. The capital expenditure need is thus higher than under the base scenario. Because of the pressure on the operating account, a lower proportion of this need is affordable. As a result, asset condition declines further by 2028 in the higher water ‘bounce back’ scenario than it does under the base scenario.

5.4 Increasing demand for community and social services

The base model run has assumed that community and social services are expanded only to keep pace with growth in the population. A ‘higher community and social services’ scenario was tested, assuming assumed that services are expanded more rapidly, to raise the level of access and range of community and social services that are available to existing populations.

Table 22: Comparison between higher community and social services delivery and base scenario

	Base scenario	Higher community and social services	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	74 192	91%
Capital expenditure need over 10 years (Rmillion)	1 712	1 735	101%
Affordable capital expenditure as % of need	70%	68%	
Asset condition by 2028	52%	51%	

Increased roll-out of community and social services leads to a decline in financial performance in SLM. The operating surplus by 2028 is 9% lower than under the base scenario due to the increased expenditure required to operate and maintain community and social services assets, with very limited or no associated revenue stream.

The capital expenditure need is higher, although the difference is only 1%. However, SLM has less ability to finance this need due to the negative impact on the operating account and so the proportion of the capital expenditure that is affordable is only 68% under the higher community and social services scenario, compared to 70% under the base scenario. As a result of more constrained capital expenditure, the analysis finds that asset condition by 2028 is somewhat worse under the higher community and social services scenario.

5.5 Lower growth in Equitable Share

A further scenario testing the impact of lower growth in the Equitable Share was tested. The base scenario has assumed Equitable Share growth of 7% per annum, 1.6% per annum above inflation which was assumed to be 5.4% per annum. A lower Equitable Share scenario was tested assuming that Equitable Share allocations grow at inflation only.

Table 23: Comparison between lower Equitable Share and base scenario

	Base scenario	Lower Equitable Share growth	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	51 680	64%
Capital expenditure need over 10 years (Rmillion)	1 712	1 712	100%
Affordable capital expenditure as % of need	70%	64%	
Asset condition by 2028	52%	51%	

Lower Equitable Share growth has the most significant negative impact on SLM finances of the scenarios tested. If Equitable Share grows at inflation only, the operating surplus by 2028 will be only 64% of that under the more moderate Equitable Share growth base scenario. Lower Equitable Share growth has no impact on capital expenditure need but worsens the ability to finance the investment. As a result, affordable capital expenditure is only 64% of need compared to 70% under the base scenario. As with the other scenarios, this results in a further decline in asset condition to 51% by 2028.

5.6 Investment in revenue generating infrastructure

This report has alluded a number of times to the importance of continuing to invest adequately in infrastructure that serves non-poor households and non-domestic customers. This infrastructure is revenue generating and secures the ability of SLM to continue to cross-subsidise service provision to ever growing numbers of poor households. A scenario was tested where investment in infrastructure for non-poor households and non-domestic customers is reduced to 50% of need in an attempt to reduce the capital programme to an affordable level.

Table 24: Comparison between lower investment in revenue generating infrastructure and base scenario

	Base scenario	Lower investment in revenue generating infrastructure	Scenario as % of base
Operating surplus in 2028 (R'000)	81 199	71 843	88%
Capital expenditure need over 10 years (Rmillion)	1 712	1 712	100%
Affordable capital expenditure as % of need	70%	68%	
Asset condition by 2028	52%	53%	

Reducing investment in revenue generating infrastructure worsens the performance of SLM on the operating account. The operating surplus in 2028 is 88% of that under the base scenario. The capital expenditure need under this scenario is unchanged compared to the base scenario but the level of affordable capital expenditure is reduced due to the poorer operating performance. The impact on the asset condition is positive compared to the base

scenario, however, because under this scenario some of the capital expenditure cuts are made on infrastructure for non-poor households and non-domestic customers, and as a result there is higher capital expenditure possible on renewal. It is likely that asset condition over the longer term will worsen, however, as the reduced performance on the capital account will continue to reduce the affordability of the capital programme.

6 Way forward for SLM

SLM is currently in a strong financial position, generating operating surpluses of about 10% of revenue, and holding a cash balance in excess of R500 million. It is budgeting to expand its capital programme from R96 million per annum over the past two years to R155 per annum over 2019 and 2020.

The analysis presented in this LTFP suggests that SLM can continue to perform strongly on the operating account and to generate cash surpluses. The analysis confirms that the capital programme should be expanded, with a focus on increased expenditure on the renewal of existing assets. However, the analysis suggests further that the cash surpluses generated are not sufficiently strong to finance the full capital expenditure need over the full 10 years assessed. As a result, SLM is likely continue to under-invest in renewal of assets over the next 10 years. This means that sound infrastructure asset management becomes very important in order to prioritise renewal needs within limited available financing, and so manage the risks associated with declining asset condition.

The overall picture for SLM is that it will remain a strong performer but that a difficult socio-economic environment, with limited economic growth, rising number of poor households and increasingly reduced ability to cross-subsidise from non-poor customers, means that prudent financial management remains necessary. It is important for the long-term implications of current decisions regarding operating or capital expenditure to be carefully considered.

Some specific comments on way forward are made below.

6.1 Recommendations

Organisational and operational efficiencies

SLM is a very efficient and effective municipality, among the best in the country. Cost containment and efficiency improvements have been embraced over several years and there is currently little indication of inefficiencies in its operations and limited potential to save more. That said, SLM it should continue to identify opportunities for efficiency gain and cost containment as these arise.

Non-Revenue Water and Electricity

Levels of Non-Revenue Water and Electricity in SLM are among the best in the country. Maintaining NRW and NRE at these levels, however, requires continued capital investment in the renewal of infrastructure and in infrastructure for pressure management and zone control for water. It also requires continued attention to the revenue value chain: ensuring that water and electricity meters are in place, are accurate, are read regularly, that readings are accurately captured and bills accurately produced, and that measures are put in place to reduce water and electricity theft where it occurs.

Rates and tariffs

There are a number of factors that drive municipal costs to increase at a rate above the inflation rate. The wage bargaining council agreements is one notable example, typically increasing salaries and wages above inflation. Rates and tariffs must increase at a rate that at least keeps up with increases in input costs. SLM thus propose to increase rates and tariffs by at least 1.0% ahead of inflation each year.

Ideally, SLM should conduct analysis annually to determine the unit increases in input costs and use these as a basis for motivating for minimum tariff increases above inflation to keep pace with these cost increases. This includes in negotiations with NERSA regarding electricity tariffs.

Cash position

SLM intends to maintain strong cash balances in order to provide security and lower risk. Having a strong cash position allows SLM flexibility to respond to favourable conditions in financial and construction markets and acts as a useful crisis reserve. SLM currently generates strong interest income based on its cash balance. This is currently an important revenue source and SLM intends to maintain this going forward. In addition, having a strong cash position puts SLM in a strong negotiating position regarding borrowing terms. Finally, a strong cash position results in a lower dependence on grant finance promotes autonomy and own authority.

SLM intends that the cash coverage ratio will not drop below 6 months, with a targeted range of 6 to 8 months.

Cash collection and debtor management

Cash collection rates have been very strong in SLM over the past few years. However, they are coming under pressure regarding water in particular. Growing poor populations place cash collection rates under pressure. The construction of new subsidised housing developments in areas where Eskom provides electricity will increase this problem.

SLM should continue to strive to maintain a collection rate of at least 95%, as recommended by National Treasury. It will be important for Council to remain supportive of the debt collection and credit control measures required to achieve this.

While most municipalities have found the installation of manual flow restrictors on water pipes to be unsuccessful, some municipalities (eThekweni historically and City of Cape Town more recently) have had success with the installation of smart water meters that allow for flow restriction. SLM could consider the installation of such meters as a credit control measure in areas where Eskom provides electricity.

Maintenance

Officials at SLM currently estimate that maintenance levels in the municipality are largely adequate, with some under-allowance for maintenance on water and electricity infrastructure. Maintenance expenditures should be increased to make up this deficit.

SLM should progress towards using the cost allocation functionality in mSCOA to ensure that maintenance expenditure is accurately quantified, particularly through recording the costs of labour associated with maintenance.

Capital expenditure

The analysis suggests that current capital expenditure on new assets is adequate, but that SLM is under-spending on the renewal of the existing asset base. Capital expenditure on renewal should be increased. It is estimated that approximately 52% of the need for capital expenditure is for renewal.

Capital planning and prioritisation

The analysis shows that, even with its strong performance, SLM cannot raise sufficient finance to fund its full capital expenditure need. This means that SLM will remain capital constrained for at least the medium term. In a capital constrained environment, it is very important that robust capital planning and capital prioritisation takes place. This should balance the need for infrastructure to support social development and economic growth, as well as ensure that adequate allowance is made for renewal.

Infrastructure Asset Management

Continued constraints on funding for the renewal of assets means that asset condition will potentially decline. This means that strong infrastructure asset management will become vital to prioritise the renewal of assets based on condition and risk of failure.

Development charges

SLM should clarify policy regarding development charges and calculate the level at which these should be levied in line with the National Treasury guideline.

Borrowing

The analysis finds that borrowing will be an important element of the capital finance mix in SLM over the next 10 years. Prudent borrowing will allow SLM to accelerate the affordable level of capital expenditure while maintaining strong cash coverage and adequate operating surpluses. In the second five years of the analysis, once the availability of cash to finance capital expenditure becomes more constrained, SLM will become increasingly reliant on borrowing. SLM should borrow to finance new revenue generating infrastructure. SLM can consider issuing an unlisted bond as an alternative to raising loans.

6.2 Implementation and review of the plan

MTREF budgets cover a three-year period but it is important that they keep a long-term view in mind. Current decisions regarding operating or capital expenditure have long-term implications and these must be carefully considered. It is recommended that Council consider the content of the LTFP when preparing the MTREF budgets for 2020/21 and subsequent years with the expectation that adopted budgets will closely align with the underlying principles and assumptions of the LTFP. In particular, the key financial ratios presented in Table 18 should be considered.

The LTFP should be reviewed annually to account for updated performance information and changing circumstances.

An assessment should be undertaken in 2023, in other words after 5 years, to assess where SLM is against the plan. A substantial update to the plan will be necessary at this point.

The following five- and 10-year milestones are provided to inform the five-year assessment.

Table 25: Proposed five- and 10-year milestones for monitoring of the plan

	2024	2028
Financial performance by year 5 and year 10		
Net operating surplus margin	2.9%	5.1%
Revenue (Rmillion)	1 113	1 688
Expenditure (Rmillion)	1 081	1 606
Non- Revenue Electricity	5.5%	5.5%
Non-Revenue Water	16.5%	16.5%
Employee related costs	29%	30%
Contracted services	12%	12%
Own source revenue share	82.7%	83.8%
Capital programme per annum on average over first 5 and 10 years		
Capital expenditure (Rmillion)	151	87
Borrowing share of capital finance mix	12%	18%
Internal funds share of capital finance mix	59%	33%
Financial position by year 5 and year 10		
Collection rate	89%	88%
Debtors days	70	70
Capital cost as a % of operating expenditure	3.5%	3.2%
Debt to revenue	14%	9%
Current ratio	7.32	8.61
Cash coverage	6.7	8.0

SLM is facing a difficult socio-economic environment, with limited economic growth, rising number of poor households and increasingly reduced ability to cross-subsidise from non-poor customers. However, it is confident that this LTFP will allow the municipality to set priorities within its available resources and to continue to deliver the infrastructure and services required to meet social and economic needs in a financially responsible and sustainable manner.

Annexure 1: details of financial projections

Statement of Financial Performance										
<i>Figures in current R'000</i>										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue By Source										
Property rates	127 748	138 795	150 771	163 751	177 821	193 072	209 602	227 520	246 944	268 001
Service charges - electricity revenue	297 149	327 695	361 311	394 342	430 315	465 560	507 835	553 863	603 973	658 526
Service charges - water revenue	64 773	70 636	75 708	81 136	87 174	93 812	100 940	108 594	116 811	125 634
Service charges - sanitation revenue	42 976	46 028	49 285	52 758	56 462	60 413	64 627	69 122	73 916	79 032
Service charges - refuse revenue	27 488	29 482	31 614	33 894	36 331	38 937	41 723	44 702	47 887	51 294
Service charges - other	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	1 612	1 699	1 790	1 887	1 989	2 096	2 209	2 329	2 455	2 587
Interest earned - external investments	48 305	48 271	47 316	45 537	49 127	57 484	67 810	80 323	95 705	114 741
Interest earned - outstanding debtors	2 627	3 567	4 662	5 928	7 375	9 025	10 889	13 001	15 387	18 077
Dividends received	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	29 489	31 376	33 368	35 472	37 693	40 037	42 510	45 120	47 875	50 782
Licences and permits	4 289	4 564	4 854	5 160	5 483	5 824	6 183	6 563	6 964	7 387
Agency services	4 609	4 858	5 121	5 397	5 689	5 996	6 320	6 661	7 020	7 400
Transfers and subsidies	143 487	158 511	169 743	181 772	194 653	208 447	223 219	239 037	255 976	274 115
Other revenue	18 744	19 756	20 823	21 947	23 132	24 381	25 698	27 086	28 548	30 090
Gains on disposal of PPE	-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)	813 296	885 238	956 365	1 028 982	1 113 244	1 205 084	1 309 566	1 423 919	1 549 462	1 687 667
	10.3%	10.5%	7.1%	7.1%	7.1%	7.1%				
Expenditure By Type										16.4%
Employee related costs	215 922	236 264	258 337	282 423	308 671	337 265	368 405	402 305	439 195	479 325
Remuneration of councillors	10 929	11 520	12 142	12 797	13 488	14 217	14 984	15 793	16 646	17 545
Debt impairment	64 618	72 619	80 017	88 359	96 736	106 354	115 648	126 532	138 404	151 357
Depreciation & asset impairment	87 273	89 627	94 438	99 068	102 948	104 625	107 394	110 289	113 132	112 446
Finance charges	15 486	17 308	17 977	18 548	19 010	19 408	19 589	19 519	19 163	18 477
Bulk purchases	223 756	247 608	273 961	298 618	325 446	354 632	386 379	420 906	458 451	499 274
Other materials	28 364	30 390	32 542	34 846	37 310	42 829	48 929	55 650	63 057	71 186
Contracted services	96 970	104 448	112 449	121 036	130 244	140 116	150 695	162 030	174 170	187 167
Transfers and subsidies	2 704	2 850	3 004	3 166	3 337	3 517	3 707	3 907	4 118	4 340
Other expenditure	32 907	35 567	38 424	41 498	44 803	48 353	52 165	56 256	60 644	65 350
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	-
Total Expenditure	778 930	848 199	923 290	1 000 360	1 081 995	1 171 316	1 267 895	1 373 189	1 486 981	1 606 468
Surplus/(Deficit)	34 366	37 038	33 075	28 622	31 249	33 767	41 670	50 731	62 481	81 199
Transfers and subsidies - capital (National / Provincial and District)	33 590	38 410	42 101	44 553	47 147	46 015	48 499	51 118	53 879	56 788
Transfers and subsidies - capital (other)	611	1 337	401	678	1 103	1 454	1 504	1 558	1 617	1 684
Surplus/(Deficit) after capital transfers & contributions	68 568	76 785	75 577	73 853	79 500	81 236	91 673	103 407	117 977	139 671
Surplus/(Deficit) before capital transfers as % of revenue	4.2%	4.2%	3.5%	2.8%	2.8%	2.8%	3.2%	3.6%	4.0%	4.8%

Statement of Financial Position										
<i>Figures in current R'000</i>										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Assets										
<i>Current assets</i>										
Cash	498 678	463 769	423 470	433 442	481 197	538 549	605 244	684 204	778 272	891 059
Call investment deposits	-	-	-	-	-	-	-	-	-	-
Consumer debtors	116 324	127 081	138 577	150 353	163 161	176 320	191 330	207 602	225 243	244 369
Other debtors	3 058	3 241	3 434	3 637	3 852	4 078	4 317	4 569	4 834	5 115
Current portion of long-term receivables	48	48	48	48	48	48	48	48	48	48
Inventory	17 634	17 634	17 634	17 634	17 634	17 634	17 634	17 634	17 634	17 634
<i>Total current assets</i>	<i>635 743</i>	<i>611 774</i>	<i>583 163</i>	<i>605 114</i>	<i>665 892</i>	<i>736 630</i>	<i>818 573</i>	<i>914 058</i>	<i>1 026 032</i>	<i>1 158 225</i>
<i>Non current assets</i>										
Long-term receivables	3	3	3	3	3	3	3	3	3	3
Investments	-	-	-	-	-	-	-	-	-	-
Investment property	45 091	45 091	45 091	45 091	45 091	45 091	45 091	45 091	45 091	45 091
Investment in Associate	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment	2 004 336	2 113 799	2 210 935	2 277 424	2 310 236	2 338 293	2 364 155	2 386 467	2 404 769	2 426 992
Agricultural	-	-	-	-	-	-	-	-	-	-
Biological	-	-	-	-	-	-	-	-	-	-
Intangible	1 185	1 185	1 185	1 185	1 185	1 185	1 185	1 185	1 185	1 185
Other non-current assets	1 120	1 120	1 120	1 120	1 120	1 120	1 120	1 120	1 120	1 120
<i>Total non current assets</i>	<i>2 051 734</i>	<i>2 161 198</i>	<i>2 258 334</i>	<i>2 324 823</i>	<i>2 357 635</i>	<i>2 385 692</i>	<i>2 411 553</i>	<i>2 433 866</i>	<i>2 452 168</i>	<i>2 474 391</i>
Total assets	2 687 477	2 772 971	2 841 497	2 929 937	3 023 526	3 122 322	3 230 127	3 347 923	3 478 200	3 632 616
Liabilities										
<i>Current liabilities</i>										
Bank overdraft	-	-	-	-	-	-	-	-	-	-
Borrowing	10 662	12 855	15 348	17 902	21 120	24 733	28 784	33 321	33 473	33 138
Consumer deposits	13 669	14 649	15 696	16 812	18 002	19 272	20 625	22 069	23 608	25 248
Trade and other payables	83 207	66 357	44 215	44 257	44 203	48 159	52 452	57 110	62 163	67 642
Provisions	8 531	8 531	8 531	8 531	8 531	8 531	8 531	8 531	8 531	8 531
<i>Total current liabilities</i>	<i>116 069</i>	<i>102 393</i>	<i>83 790</i>	<i>87 502</i>	<i>91 856</i>	<i>100 694</i>	<i>110 392</i>	<i>121 032</i>	<i>127 775</i>	<i>134 559</i>
<i>Non current liabilities</i>										
Borrowing	136 299	150 029	152 267	153 194	152 344	149 829	144 353	135 495	127 714	121 574
Provisions	103 772	109 376	115 282	121 507	128 069	134 984	142 274	149 956	158 054	166 589
<i>Total non current liabilities</i>	<i>240 071</i>	<i>259 404</i>	<i>267 549</i>	<i>274 701</i>	<i>280 413</i>	<i>284 814</i>	<i>286 627</i>	<i>285 451</i>	<i>285 767</i>	<i>288 163</i>
Total liabilities	356 140	361 797	351 339	362 203	372 269	385 508	397 019	406 483	413 543	422 722
Net assets	2 331 337	2 411 174	2 490 158	2 567 734	2 651 257	2 736 814	2 833 108	2 941 441	3 064 658	3 209 894
Community wealth/Equity										
Accumulated Surplus/(Deficit)	2 136 913	2 213 698	2 289 275	2 363 129	2 442 628	2 523 865	2 615 538	2 718 944	2 836 921	2 976 592
Reserves	194 425	197 476	200 883	204 605	208 629	212 950	217 570	222 496	227 737	233 302
Total community wealth/equity	2 331 337	2 411 174	2 490 158	2 567 734	2 651 257	2 736 814	2 833 108	2 941 441	3 064 658	3 209 894

Cash flow statement										
<i>Figures in current R'000</i>										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Cash flow from operating activities										
<i>Receipts</i>										
Property rates	121 086	131 150	142 035	153 808	166 539	180 308	195 198	211 302	228 719	247 559
Service charges	411 134	448 995	489 132	529 221	572 789	616 430	667 238	722 201	781 662	845 991
Other revenue	10 789	11 421	12 088	12 791	13 533	14 316	15 141	16 012	16 931	17 900
Government - operating	143 487	158 511	169 743	181 772	194 653	208 447	223 219	239 037	255 976	274 115
Government - capital	39 223	45 940	48 611	51 368	54 242	57 251	60 409	63 727	67 217	70 889
Interest	50 765	51 603	51 661	51 051	55 972	65 843	77 873	92 312	109 863	131 338
Dividends	-	-	-	-	-	-	-	-	-	-
<i>Payments</i>										
Suppliers and employees	- 618 606	- 681 521	- 747 195	- 788 044	- 856 527	- 933 457	- 1 017 264	- 1 108 283	- 1 207 110	- 1 314 368
Finance charges	- 15 486	- 17 308	- 17 977	- 18 548	- 19 010	- 19 408	- 19 589	- 19 519	- 19 163	- 18 477
Transfers and Grants	- 2 704	- 2 850	- 3 004	- 3 166	- 3 337	- 3 517	- 3 707	- 3 907	- 4 118	- 4 340
Net cash from/(used) in operating activities	139 688	145 941	145 096	170 253	178 854	186 213	198 517	212 882	229 976	250 606
Cash flows from investing activities										
<i>Receipts</i>										
Proceeds on disposal of PPE	611	1 337	401	678	1 103	1 454	1 504	1 558	1 617	1 684
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-	-	-
<i>Payments</i>										
Capital assets	- 185 809	- 199 090	- 191 574	- 165 557	- 135 760	- 132 682	- 133 255	- 132 602	- 131 434	- 134 669
Net cash from/(used) in investing activities	- 185 198	- 197 753	- 191 173	- 164 879	- 134 658	- 131 228	- 131 751	- 131 044	- 129 817	- 132 986
Cash flows from financing activities										
<i>Receipts</i>										
Short term loans	-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	25 441	26 584	17 586	18 829	20 271	22 218	23 308	24 463	25 691	26 999
Increase (decrease) in consumer deposits	919	980	1 046	1 116	1 190	1 270	1 354	1 443	1 539	1 640
<i>Payments</i>										
Repayment of borrowing	- 8 157	- 10 662	- 12 855	- 15 348	- 17 902	- 21 120	- 24 733	- 28 784	- 33 321	- 33 473
Net cash from/(used) in financing activities	18 203	16 903	5 778	4 597	3 559	2 367	- 71	- 2 877	- 6 091	- 4 834
Net increase/(decrease) in cash held	- 27 307	- 34 909	- 40 299	9 972	47 756	57 352	66 695	78 961	94 068	112 787
Cash/cash equivalents at the year begin:	525 985	498 678	463 769	423 470	433 442	481 197	538 549	605 244	684 204	778 272
Cash/cash equivalents at the year end:	498 678	463 769	423 470	433 442	481 197	538 549	605 244	684 204	778 272	891 059